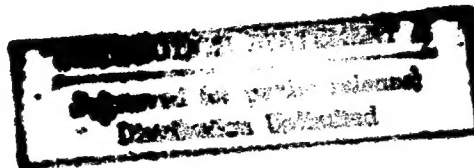


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6 NOVEMBER 1986



# China Report

ECONOMIC AFFAIRS

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6 November 1986

## NATIONAL POLICY AND ISSUES

## CONSTRUCTION OF COOPERATIVE HOUSING DISCUSSED

HK010231 Beijing RENMIN RIBAO in Chinese 22 Sep 86 p 5

[Article by Xiao Liang [2556 0031]: "On Housing Cooperatives"]

[Text] Collective or Cooperative Housing Construction Is a New Aspect of Our Housing Construction

Over the past few years, a number of collective or cooperative housing construction enterprises and organizations have emerged one by one. According to what I have read, the following are some of them:

1. The Wenzhou City Federation of Trade Unions has organized staff and workers there to pool funds to jointly build houses. Since 1980, it has raised 12 million yuan of funds and completed the construction of over 60,000 square meters of residential housing and thus solved the housing problem of over 1,300 families of the staff and workers. At present, another 60,000 square meters of residential housing area for staff and workers are being built.

2. At the beginning of 1985, a non-governmental real estate enterprise--the Guangzhou Guangxia Residential Housing Construction Share Company Limited emerged in Guangzhou. The company has started the construction of an 8-story building for married couples. When its construction is completed, it will provide housing for 90 married couples. It is now planning to build three more such buildings with a total area of 10,000 square meters.

3. With the support of the real estate administration departments in various areas, over the past few years, some collective housing construction organizations have been set up. For example, the Yangzi Real Estate Industrial Company in Wuhan City, the Changqing Real Estate Industrial Company in Jilin City, the Huaxia Real Estate Industrial Share Company Limited in Chongqing City, the Hujiang Real Estate Industrial Company in Shanghai City, and the Huayu Commodity Residential Housing Development Company in Zhengzhou City.

4. In August 1985, the trade union of the Shanghai Toy Company organized a residential housing cooperative--the Xixin Residential Housing Cooperative. Its funds have been raised by families that need housing. It will soon complete construction of 13,000 square meters of residential housing and is making preparations for the construction of a further 10,000 square meters or more of housing.

5. Peasants or suburban production teams have provided funds and labor to develop the real estate industry in cities. The peasants in the suburbs of Shijiazhuang City invested in the construction of commodity residential housing area for the staff and workers and units in the city. It has built its first batch of 78 buildings of 190,000 square meters.

The above-mentioned real estate enterprises are not identical in nature. Some are pure housing cooperatives, others are collective enterprises that produce construction products, still others are semigovernmental and semi-non-governmental collective economic organizations, and yet others are Chinese-foreign joint venture. But they all have one thing in common, namely, they do not rely on state investment, but have been set up and operated by people on their own; they all are independent accounting units; and they have all done something good for the community.

#### Collective or Cooperative Housing Construction Is a Major Breakthrough in the Existing Housing System

For a long time, the state was in overall charge of the supply of residential housing facilities for the staff and workers in our cities and towns, and implemented a semi-supply system characterized by centralized construction and distribution and low rents. This method came about to some extent because of the system of low wages, but the main causes for its emergence are that we failed to regard residential housing facilities as a commodity or to administer and manage the construction of residential buildings according to the principle of the planned commodity economy. Under that situation, on the one hand, the state has to continue to invest lots of money in housing construction every year (over 10 billion yuan each year in the construction of housing for the staff and workers), and in addition, as rents are very low, every year, the state has to allocate several billion yuan for the maintenance and management of housing facilities. This burden on the state has become increasingly heavy and is difficult for the state to continue to bear. On the other hand, it has also given rise to the habit of "eating out of the same big pot" and the mentality of dependence among the staff and workers. As a result, they are not willing to buy houses even if they have the money. At the same time, it has stimulated people's demand for residential housing facilities. As a result, the personal consumption of our residents is concentrated on the purchases of high-grade durable consumer goods such as color television sets and refrigerators. This has not only made it difficult to rationalize the composition of our consumption and industry, but also hindered the development of our construction and real estate industries and thus made it very difficult to overcome the shortage of housing in a relatively short time. Under these circumstances, the practice of conscientiously turning residential housing facilities into commodities has naturally become a fundamental requirement in the reform of the existing urban housing system.

Turning housing into commodities does not merely mean that the state real estate departments and construction enterprises owned by the whole people should gradually move into the construction of residential houses and administering and managing them in line with the operation of the commodity economy. It also means that we should develop collective and private construction undertakings

and give play to the initiative of all sectors in building houses and supplying residential houses as commodities in order to satisfy the demand of our people. Collective or cooperative construction of houses is precisely a constituent part of this overall development strategy, policy, and measure.

Encouraging residents, staff and workers to build residential houses is an idea that was put forward as far back as before the "cultural revolution." However, until the system of the state taking charge of and managing everything in a centralized manner is reformed, only a very small number of collectives and individuals will build or buy residential houses; therefore, it is even less possible for a large number of housing cooperatives to emerge. China has no tradition of housing cooperatives and this is another reason why they have not developed in our country.

In other countries, socialist or capitalist, housing cooperatives are quite common. Take the Soviet Union for example--in 1958, it decided to resume the practice of organizing cooperatives of residents for the purpose of building houses. Since 1962 when the Council of Ministers promulgated the "Resolution on the Construction of Houses by Private People and Cooperatives," housing cooperatives have become common and developed everywhere. Generally, a housing cooperative is organized under the sponsor of an enterprise or institution and has 20 to 60 members. A citizen who is above the age of 18, who is formally registered as a resident and who wants to improve his housing conditions can join the cooperative. People join and withdraw from the cooperative on a voluntary basis, but their application for entry and withdrawal has to be approved by a meeting attended by all its members. Its funds are raised by its members as individuals and it is subsidized by the public. At present, cooperative construction of housing has already become an important way for the Soviet Union to overcome the shortage of residential housing facilities. As for countries such as Poland, Hungary and Czechoslovakia, cooperative housing construction has always been important since the 1970's. In Poland, there are not only housing cooperatives everywhere in its urban and rural areas, but there are also federations of housing cooperatives at provincial and central levels. In addition to building residential houses for their members, the cooperatives provided with necessary conditions can also sign contracts with units to build public housing buildings. In some newly built cities, two thirds of the residential buildings have been built by housing cooperatives. In the total volume of residential housing construction in Czechoslovakia in 1980, 30 percent was built by housing cooperatives and 25 percent was built by private people. This proves that in our country's urban residential housing construction, we can rely more on collective and cooperative methods.

#### Important Position and Broad Prospects of Collective or Cooperative Housing Construction

Residential housing one of the issues that people are most greatly concerned about. As residential housing is characterized by big investment, long duration of construction, and the immovable nature of real estate, it is a most difficult problem to solve. In particular, in an underdeveloped country with such a big population as ours, it is indeed worth our conscientious reconsideration how we can very satisfactorily solve our people's housing problems.



The experience that we have gained through many years of practice has proved that the practice of the state taking charge of everything is by no means a good method and facts have proved that it is impossible for the state to take charge of everything. Of course, it is also wrong if the state is not involved at all. What should we do? In my opinion, in solving urban residents' housing problems in the future, in addition to the construction of a number of commodity residential houses by the state with necessary investment from it, one important method is to rely on collectives to build houses. In particular, in our cities, the residents can raise funds on their own and organize housing cooperatives. If these cooperatives are satisfactorily managed and if the state gives them necessary support and help, they may provide a major solution for the problem related to the shortage of residential housing among our urban people.

Our country needs to develop collective or cooperative housing construction and is also provided with the conditions for doing that: First, as our productive forces are underdeveloped and the state's financial resources are limited, the state cannot invest more funds to solve the housing problems of our urban people. Second, many of our enterprises are also unable to build large amounts of housing for their staff and workers. In particular, the medium-sized and small enterprises and collective enterprises among them also find it very difficult to solve the housing problems for their staff and workers entirely by their own welfare funds. They urgently need to organize themselves in order to jointly rely on the force of collectives in building houses. Third, our urban people have a tremendous demand for residential housing. For example, in our large and medium-sized cities, about one third of the population are suffering from housing shortage. This includes those whose average housing area is less than 4 square meters and those who have registered their marriage but have not yet been provided with rooms to live in. Calculated at 8 square meters per person, from now to the end of this century, our urban residents' total demand for new residential housing area will be about 2.5 billion square meters. This is a huge figure. Fourth, although China is implementing a low-wage system among its staff and workers, and although this to some extent restricts their ability to purchase houses, as their wages and bonuses have increased over the past few years, many of them have saved some money. According to a sampling survey by the State Statistical Bureau among the families of our urban residents, in 1985, the average living expenditure income for our urban residents was 690 yuan and the average wage in money for the staff and workers all over the country was 1,142 yuan. By the end of the 1st quarter this year, the bank deposits of our country's urban and rural residents totaled 179.8 billion yuan, of which two-thirds was the bank deposits of our urban people. What huge purchasing power this is! If one-third of this sum is spent in purchasing and building residential houses, what a huge market for residential housing it will give rise to. Fifth, many of our staff and workers are willing to purchase or build their own houses. According to the surveys in some cities, over one third of the staff and workers there are willing to buy and build their own houses. The shortage of supply of commodity houses to meet the demand in the cities where experiments of turning residential flats into commodities are being carried out, has also proved this. When the Shanghai Toy Company established the Xinxin Residential Housing Cooperative, its staff and workers queued at the office of the trade union to subscribe to the shares of the cooperative. This also proved this point. In the light of the above, we can draw the conclusion that there is a

great necessity to develop collective housing construction and that residential housing cooperatives have broad prospects in our country. Even when we have in the main solved our urban residents' housing problems through several decades of hard efforts, we can still assign the management and maintenance of our residential houses to collective or cooperative organizations.

The development of urban collective or cooperative housing construction organizations will also give impetus to our state-owned construction industry and real estate administrative departments. Now the construction industry and real estate administrative departments of our state have a common work style of "official industry" and "official commerce." Their prices are very high and the waste factor serious while their service attitude is becoming increasingly poor. One important reason for this is the lack of competition and comparison. On the other hand, some of the budding collective and cooperative housing construction enterprises now have the common strong points of streamlined organization, high efficiency and doing business earnestly. The prices of commodity residential flats asked by collective enterprises are generally lower than those asked by state development companies, by about 15 percent in some cases. In addition, their service attitude is satisfactory and most of them can design the layout of the flats according to the requirements of their customers. This is something worth encouraging. In the future, if our collective and cooperative housing construction industry can achieve relatively great development, it will not only become an important force in our construction industry and in our industry to administer and manage real estates, but it will also inevitably compete with our state-owned construction industry and thus urge our state-owned construction industry and real estate administrative departments to improve their management, administration, and quality of service and to lower their costs and prices.

#### We Should Vigorously Support Various Aspects of the Housing Cooperatives

Under socialist conditions, collective or cooperative housing construction economic organizations are enterprises of a socialist nature. But as they are new things, they thus need support from different quarters. At present, we should first publicize their role and position in order to give our vast number of cadres and masses a correct understanding about collective or cooperative housing construction.

Second, we should vigorously help collective or cooperative housing construction in the spheres of funds, supply of land and building materials, and planning. Developing real estate industry and business is different from the production of small commodities and the supply of large stretches of land is indispensable, but land in our city is owned by the state. How should we solve this problem? This means that we should separate the ownership over land from the power to use land and rent land to collective or cooperative enterprises for development and utilization. After the construction is completed, rent for the use of land will be collected from the users (which will account for a portion of the value of the real estate). Therefore, in the overall plans of our cities and in the centralized administration of our land, we should create necessary conditions for collective or cooperative housing construction in a centralized manner through our urban planning. As for the funds needed in housing construction,

though the collectives and individuals can raise a fairly large part of it, the enterprises and banks should help raise relatively large amounts of funds. Our banks can develop the business of housing construction deposits or provide preferential housing loans. This is something that benefits the individuals as well as the state and collectives. Furthermore, there are problems related to the supply of building materials and so on. Under the current system, it is very difficult for collective construction enterprises or residential housing cooperatives to rely merely on their own purchases in the market to solve these problems. Our planning and materials and goods departments must help them.

Third, there should be certain legal ground for the development of collective or cooperative housing construction, so that people can act according to law and regulations. In addition to the regulations that each cooperative must have, we should act as other socialist countries have done and promulgate certain resolutions and legislation when conditions are mature, in order to ensure the development of this industry.

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NATIONAL POLICY AND ISSUES

RENMIN RIBAO ON SOCIALIST ECONOMIC MECHANISM

HK100149 Beijing RENMIN RIBAO in Chinese 3 Oct 86 p 5

[Article by Dong Fureng [5516 6534 4356]: "Comments on the Discussion on the Theory of the Socialist Economic Mechanism--originally carried in the 1986 No 9 issue of JINGJIXUE WENZHAI (Economics Digest) and slightly abridged by RENMIN RIBAO"]

[Text] Over the past few years our country has carried out research into the issue concerning the socialist economic structure. This represents progress in the research in our country's socialist economic theory. Socialist economic theory properly consists of three interrelated parts, namely, the theory on the essence of the socialist economy, the theory on the operation of the socialist economy and the theory on the development of the socialist economy. However, in the past before the "Great Cultural Revolution," our country's research into socialist economic theory remained in the main at the stage of expounding on the essence of the socialist economy. We almost carried out no research at all into the operation of the socialist economy nor did we carry out much research into the issue of the development of a socialist economy. However, without research into the operation and development of the socialist economy, our research into the essence of the socialist economy can make no progress and will continue to be empty talk about dogmas. As a result, our socialist economy theory becomes empty "rules" and "principles" devoid of vivid content; it becomes merely a description in words of economic laws or a list of economic laws, or becomes a collection of existing policies. As a matter of fact, the essence of the socialist economy reveals itself in the operation and development of our socialist economy. Will our theory on the essence of a socialist economy not become a few empty "rules" and "principles" if it is divorced from the operation and development of our socialist economy? After all, socialist economic laws are laws that govern the socialist economic movement (operation and development). If we talk about the laws, divorced from the socialist economic movement, how can we avoid the pitfall of only giving dull descriptions in words?

The research into the operation of our socialist economy means research into the mechanism of socialist economic operations. By the socialist economic mechanism we mean the mechanism of the operation of the socialist economy (of course, there is also the mechanism of the development of a

socialist economy, which is not discussed here). The research into the mechanism of the operation of a socialist economy will not only enrich the content of the theory on the essence of socialist economics, but will also make our socialist economic theory (including the theory on the essence of the socialist economy) practical. For example, the aim of socialist production is to satisfy the continuous growing demand of our people. This is an essential characteristic of our socialist economy. In socialist economic theory, there are various kinds of descriptions on the basic economic laws of socialism (here, we are not going to discuss the questions of whether there is a basic socialist economic law as was put forth by Stalin and of whether the various kinds of descriptions of this law are proper, but for the time being, we can regard Stalin's view as the starting point of our discussion). It is of course very significant to realize that satisfying people's demands is the aim of socialist production. However, our socialist economic theory should not stop at the declaration that there is a basic socialist economic law or at pointing out that the aim of socialist production is to satisfy people's demand. What is of even greater practical significance and more necessary is to find a mechanism by which the aim of our socialist production is realized, in other words, to answer the question of by what mechanism the basic socialist economic law plays its role? Therefore, we can see that in the past, the growth in our socialist production did not necessarily lead to any improvement in satisfying people's demands. On the contrary, the mentality of "producing for production's sake" often emerged. Some enterprises often produce some products of poor quality and of only a very few number of varieties that have remained unchanged for many years. They even produce some products for which there is no demand and the only point in producing them is to calculate the output value. This kind of growth in production not only cannot satisfy people's demands, but will even hinder satisfying people's demands. What is the cause of this? Have we not mentioned that satisfying people's demands is determined by the essence of the relations of socialist production? Is there not an objective law called the basic socialist economic law that is playing its role? Obviously, there are many problems to study and solve in this area. One of the important problems among them is the issue related to the mechanism of the operation of the socialist economy. The aim of socialist production is achieved in the process of the operation of the socialist economy. Only through the various kinds of mechanisms of economic operation can socialist production achieve the aim of satisfying people's demands. These economic mechanisms will establish a close relationship of mutual dependence between social production and people's demands and between the interests of producers and consumers, make it a must for producers to pay attention to the changes in consumers' demands and to be able to promptly feed back these changes to producers, enable producers to establish a relation of competition with one another, and enable the prices of products to reflect the changes in supply and demand relations, the scarcity of resources, the quality of products and so on. If we do not have various kinds of economic mechanisms, our socialist production will not spontaneously lead to satisfying the demands of our people. In order to study the mechanism of the operation of our socialist economy, we

must deeply study the process of the operation of our socialist economy and the various very complicated changing economic relations in the operation of our socialist economy. When we study the physiological mechanism of the human body, we should regard it as a living organic body. Just in the same way, when we study the mechanism of socialist economy, we also must regard a socialist economy as a living organic body and as a complicated and living organic system. Studying it in this way will not only enable us to understand the way that our socialist economy operates and the way to make it operate smoothly with few breakdowns, but will also imbue vivid content in our understanding of the essence of the socialist economy and our understanding of its economic laws. That is why we regard the study of the issue related to the socialist economic mechanism as major progress in the research into socialist economic theory.

The research and discussion of the issue of the socialist economic mechanism that has developed in the past few years is required by our economic structural reform. Besides the reform in the form of ownership, one of the important parts of our economic structural reform is to reform the method of operation of our socialist economy; therefore, it is necessary also to reform the mechanism of the operation of our socialist economy. The issue of the mechanism of the operation of socialist economy is an important topic that we must study and solve in our economic structural reform. We can say that if we fail to solve the issue related to the reform of our economic mechanism, it will be impossible for our economic structural reform in other spheres to be partially effective or fully effective. In our reform in the past few years, we have increasingly frequently applied economic stimulation to promote our economic development. For example, in our enterprises we have set up a bonus system to encourage the workers to work harder. We have achieved some results by doing that, but the results are not as good as we expected. At the beginning of the implementation of the bonus system, a 4-5 yuan bonus per month could play some stimulative role, but later, a bonus of 10 or even 20 yuan will not necessarily play any stimulative role. Our implementation of the bonus system was originally aimed at eliminating egalitarian distribution, but the implementation has resulted in turning the bonus payments themselves more or less into egalitarian distribution. In particular, the excessive payments of bonuses in some enterprises has caused bonuses to lose its significance and role. What is the reason for this? Naturally, it has something to do with the imperfectness of our bonus system. But it has also something to do with our failure to establish a corresponding economic mechanism. For example, we have not set up a mechanism to regulate labor and thus cannot make our laborers work diligently under the pressure of competition. If we have such a mechanism, our bonus system will be able to play its due role. For another example, we have not yet established an economic system in which our enterprises have to undertake risks on their own and in which those that are satisfactorily managed will survive and those poorly managed will be eliminated. Once we have such an economic system, no one will do such a strange and foolish thing as paying excessive bonuses. We have here given only a few examples, if we deepen our research,

we will find that there are quite a large number of very complicated problems in our economic mechanism. At present, we are carrying out a discussion on the issue of the socialist economic mechanism precisely in combination with our economic structural reform. This orientation of the discussion is correct. In the Seventh 5-Year Plan period, there will be a grand change in our economic structure from a structure with direct control as the core to a structure with indirect control as the core. This major change will lead to a major change in our economic mechanism. It is still necessary for us to deepen our research into the way our socialist economy will operate and into what mechanism of operation there should be in an economic structure with indirect control as the core.

We should say that the research into and discussion about the issue related to the socialist economic mechanism in the past few years is only a beginning. At first our research and discussions focused on the issues of planning and markets in a socialist economy. Later, the scope of research and discussions gradually expanded and we carried out research into the price, credit, and tax mechanism in the operation of the socialist economy. Of course, we have still to continue to carry out the research. In the discussion, people raised questions about the concept, characteristics, and objective and subjective nature of our economic mechanism, the relations between the economic mechanism and economic laws and structure, the model of the socialist economic structure, and so on. Of course it is necessary to clarify the concepts and nature of our economic mechanism, but we should pay attention to prevent our research into the socialist economic mechanism from again following the beaten path of empty debate about concepts and wording which we repeatedly followed in our research in the past. Since we want to study the economic mechanism, we must carry out specific and deep analysis of the operation process of the socialist economy as a whole and all its components. Debates about empty concepts and working does not help deepen the study of the issue or facilitate pushing forward the theory on socialist economy. Besides, since what we study is the mechanism of the operation of our socialist economy we cannot copy the research results of foreign economists concerning the mechanism of the operation of capitalist economy. For socialist public ownership, in particular socialist state ownership, has caused the operation and mechanism of a socialist economy to be quite different from and to have quite different problems from the operation and mechanism of a capitalist economy. For example, the restriction of a soft budget that the socialist state ownership imposes on the enterprises makes the behavior of state enterprises very different from those of private enterprises. State-owned enterprises respond to the changes in economic levers far less sensitively than private enterprises do. This has given rise to some characteristics and special problems related to the regulation and regulatory mechanism of the operation of socialist state-owned economic sector. This is what we must pay attention to in our research when we refer to the operation and mechanism of the capitalist economy.

We deeply believe that as our socialist economy develops, it will surely urge our circles of economists to deepen their research into the mechanism of our socialist economy.



NATIONAL POLICY AND ISSUES

BAN YUE TAN ON LATERAL ASSOCIATION TRENDS

HK011531 Beijing BAN YUE TAN [SEMIMONTHLY TALKS] in English 10 Sep 86 pp 12-15

[Article by Xu Yaozhong [1776 5069 0022]: "Five Major Trends in Lateral Association"--passages within slantlines published in italics]

[Text] China's enterprises, which extricated themselves from the barriers erected between regions and departments by means of lateral economic association, now present a scene of prosperity.

In the course of developing a commodity economy over the past few years, a number of enterprises, localities, and departments have removed all kinds of obstructions and have carried out various forms of lateral economic association. According to incomplete statistics, the number of economic and technological cooperation items undertaken in 1985 totalled 35,000 and the amount of capital involved in the exchange of materials and goods exceeded 16 billion yuan, an increase of 10 and 4 fold respectively over 1981. This year the State Council held the first national work conference on urban reform focused on further developing lateral economic association, and promulgated regulations on further developing lateral economic association. As a result, lateral economic association has embarked on the normal path and has entered a new stage.

There are now the following five new trends in China's lateral economic association:

/Lateral association has developed in size and a number of enterprise associations and groups of large enterprises have emerged./ With the development of commodity production and market competition, many enterprises have taken the road of lateral association as they have realized that the efforts of a single factory or mine are far from enough to meet the increasing needs. This has given rise to the clusters of enterprise associations and industrial groups.

In the sharp competition among hundreds of electric fan factories throughout the country, there emerged six major clusters of enterprises producing "Chrysanthemum," "Great Wall," "Camel," "Hua Sheng," "Bat," and other famous brand fans. In the bicycle industry, there also emerged enterprise associations producing "Forever," "Phoenix," "Flying Pigeon," and other famous brand bicycles. Changzhou, a star city which developed production rapidly and achieved better economic results, formed 56 enterprise clusters. They established ties with national



companies as well as township enterprises, carried out joint operation and management with foreign businessmen, and developed in a three-dimensional, omnidirectional, all-embracing, and diversified manner.

The establishment of large enterprise groups based on enterprise clusters is particularly conspicuous. The famous enterprise groups include the following: The first and second automobile groups in the auto industry; the Jialing group in the motorcycle industry; the Loyang mining equipment group in the machine building industry; the Northeast economic and technological group in the electric appliance industry; the Guizhou and Shenzhen electronics group in the electronics industry; and the trade federations organized by 14 large department stores from 11 cities in commerce. With the large, pivotal enterprises of the relevant trades as backbone, these groups have attracted vast numbers of small- and medium-size enterprises, scientific research and design units, and institutions of higher learning and have moved in the direction of systematization and seriation of products, providing all-round services. As the enterprise groups are not bound by administrative relationships or affected by barriers erected between regions and departments, it is advantageous to technological progress and to the readjustment of the product mix and organizational structure of enterprises. This will inevitably lead to a fundamental change in China's industrial management and planning systems.

/Regional association has been strengthened./ Following the development of a commodity economy, it is necessary for enterprises, departments, and trades to establish economic associations in the vicinity where they have frequent contacts with each other. Based on the principles of voluntariness, equality, and mutual benefit, such regional association is established according to the objective relations of the economy.

There are now more than 30 regional associations that transcend provinces or are established within a province, which are divided into the following three layers: First, the association between provinces, such as the economic and technological cooperation conference of the three provinces and cities in the north, the economic coordination conference of the five provinces and one city in the southwest, the joint economic and technological conference of the five provinces and autonomous regions in the northwest, the joint economic and technological conference of the five provinces and two cities in the south, the economic and technological conference of the northeast region, and the Shanghai economic zone. Second, the association between the contiguous regions of different provinces, such as, the newly established northern Hebei economic coordination zone participated in by some areas of Beijing and Hebei; the joint economic conference of the cities along the Bo Hai; the federation of the development of the Jiangsu, Shandong, Henan, Anhui, and Huaihai economic zone; the economic and technological coordination conference of the Shanxi, Hebei, Shandong, Henan, and central plain areas; the economic and technological coordination network of the 31 contiguous counties of Hubei, Anhui, and Jiangxi; and the economic and technological cooperation zone of the seven prefectures and cities of Hubei, Henan, Sichuan, and Shaanxi. Third, the regional association established within a province, such as, the Wuhan-Xiaogang economic coordination zone; the golden triangle (composed of Suzhou, Wuxi, and Changzhou), the silver

triangle (composed of Nanjing, Zhengjiang, and Yangzhou), and the bronze triangle (composed of Xuzhou, Lianyungang, and Huaiyin) zones in Jiangsu; and the association of the seven cities in central Liaoning.

Since the beginning of this year, the lateral economic association of the key cities along the Chang Jiang has begun to take shape. The cities along the Chang Jiang including Chongqing, Wuhan, and Nanjing, have taken specific coordination measures in economy and technology, shipping, tourism, commodity circulation, [words indistinct] fields.

Facts prove that regional association has played an extremely important role in eliminating the barriers erected between [word indistinct] departments, creating conditions for the nation's economic networks of different sizes to take shape, developing local advantages, and promoting economic development and prosperity.

/The development of scientific and technological association./ As the technology in the association of productive enterprises still remains at past levels, only by constantly applying and spreading new scientific and technological achievements can enterprises raise their technological level. Since the beginning of this year, enterprises have attached great importance to the association between production enterprises on the one hand and scientific research units and institutions of higher learning on the other.

Technological cooperation association now accounts for 60 percent of lateral association. China now has more than 10,000 scientific research-production combines. Dalian was one of the first cities to develop production and scientific research association. Some 380 scientific research units, institutions of higher learning, factories and township enterprises of the whole city took part in scientific research-production combines. The tasks of the association can be divided into 10 forms including development of relevant trades, combination of urban and rural areas, transformation of existing enterprises, spreading of major scientific and technological achievements, and exploitation of new technology. At present, the association of production, science, and technology is developing from the transfer of single technological achievements and the spreading of new technology, to the exploitation of full sets of technologies and undertaking of projects; from tackling key technical problems and exploiting new products in cooperation to the transformation of traditional industries and exploitation of new ones; and from bilateral cooperation to multi-trade and multi-lateral cooperation, gradually effecting a transition to economic and technological integration.

/The emergence of a joint-stock economy./ With the development of a commodity economy, a joint-stock economy will be the inevitable demand of enterprises. Some economists have predicted that under the conditions of a socialist commodity economy, joint-stock enterprises will become the most vigorous economic entities.

In China the joint-stock system is now adopted mainly by small and medium-sized enterprises, such as the Tianqiao Department Store Company Limited in Beijing, the Yangzijiang Pumping Company in Wuhan, and the Dongfang Plastic Complex in

Shijiazhuang. In the association, the various forms of ownership systems jointly develop production, upgrade technological levels, and expand businesses. Due to mutual infiltration, the associations now have new funds and fixed assets of various ownership systems. The relevant parties to the association share the profits according to the amount of their investment. As each share contains the investment made by relevant parties, they care for the use of funds and attaining better results. This can ensure that enterprises advance on the correct path.

/The acceleration of the pace of urban and rural economic integration./ The cooperation between urban and rural enterprises is an important aspect of current lateral economic association. The tasks of the association include processing machine parts; providing manpower, funds, and factory buildings; and establishing farm and sideline produce bases. Of the industrial clusters in Changzhou, there are more than 200 county, suburban, and rural enterprises, accounting for 65 percent of the enterprise clusters and providing jobs for over 40,000 peasants. As a result, the peasants can engage in industry without leaving their hometowns. The cooperation between urban and rural enterprises has promoted the development of township enterprises. In 1985, the output value of the county and township enterprises in Changzhou suburbs amounted to over 2 billion yuan. The development of township enterprises has changed the structure of the rural economy. The commodity rate of Changzhou's farm and sideline products reached over 70 percent. Both the urban and rural economy developed steadily, presenting a gratifying scene of common prosperity.

To sum up, the progress of lateral economic association is smooth and its trend is healthy. However, there are also some problems, indicated mainly by the following:

First, a lack of understanding of lateral association. For example, some responsible departments worried that the association would draw out the factories, diminish their power, and reduce or deprive them of their benefits. Some enterprises manufacturing quality and famous brand products also worried that by transferring their advanced technology within the association, "the master would starve for passing on his skill to the apprentices." Some small enterprises were afraid of becoming "slaves" after being taken over by large enterprises in the association. Some factories vied with one another to play the lead and tried to gain small advantages by every means.

Second, the administrative interference of the regions and departments and the barriers erected by the existing financial and planning systems. Some knocked together the advanced and backward, the large, medium, and small size enterprises within the region or department, under the excuse of planning and giving guidance to associations. Some obstructed the lateral association of enterprises by cutting down investment and the distribution of raw materials and not giving approval for project development. To interfere in the association of enterprises, some even tried to transfer the chief leading cadres. It has been reported that the interference of some national and regional administrative companies in the association has been critically serious.

With the deepgoing development of the reform of the economic structure, we believe that obstructions will be gradually eliminated. Lateral economic association, which is bound to develop vigorously according to the laws of economic life, will play an increasing important role in the development of China's commodity economy.

PROVINCIAL AFFAIRS

NANFANG RIBAO ON GUANGDONG'S ECONOMIC REFORM

HK011041 Guangzhou NANFANG RIBAO in Chinese 28 Sep 86 pp 1, 2

[Article by Liu Weiming [0491 4850 2494]: "A Tentative Study on Our Province's Economic Structural Reform Situation"]

[Text] The economic structural reform has been initiated firstly in our province's rural areas. Various forms of the contracted responsibility system linking remuneration to work have brought about tremendous changes in rural areas. At the moment, the economic structural reform is continuing to develop in depth in rural areas, and various cities and prefectures are devoting efforts to comprehensive experimental reforms at the county level. Qingyuan County, one of the counties selected by the province to launch the comprehensive reform pilot project, has already drawn up a (draft) reform plan consisting of 10 parts. The reform in rural areas has effectively promoted the development of township and town enterprises. According to statistics, the gross output value of township and town enterprises in our province amounted to 19 billion yuan in 1985, an increase of 42.9 percent over the previous year and accounting for 27.5 percent of the province's gross industrial and agricultural output value. In the first half of this year, the gross output value of township and town enterprises totaled 9.3 billion yuan, an increase of 35.6 percent over the same period last year. Township and town enterprises have now become an important component part of our province's economic development which cannot be neglected. At the same time, specialized households continue to develop, and economic combinations, specialized tree farms, and specialized markets are emerging in rural areas. Household farms have emerged as a new mode in the agricultural reclamation system. All these reforms introduced in rural areas have provided and will continue to provide valuable experience, thus giving an impetus to reform in the cities.

As for reform of the urban economic structure, an encouraging situation has developed in the lateral economic association between provinces, between areas, and between counties since the Guangdong Provincial Conference on Economic Structural Reform held in April. Jiangmen City is leading the whole province and the whole country in the institutional reform for medium-sized cities. Recently the provincial government approved a plan to put Zhanjiang and Shaoguan cities on the list of medium-sized cities to

launch experimental institutional reform. At present, Jiangmen City is actively carrying out a gradational macroeconomic administration pilot project. The city has already drawn up a "plan for trial implementation of the gradational macroeconomic control procedure of aggregate wages" and submitted it to the provincial government for examination and approval. On the other hand, the city is also working out an experimental plan for gradational macroeconomic control of the credit fund. Meanwhile, Guangzhou City is also launching a pilot project on reform of the banking system aimed at invigorating the money market; and Foshan City is preparing to draw up a reform plan for commercialized housing projects. Besides, the whole province has made new progress in reform of science and technology, culture and education, commerce, planning, finance, and commodity prices; and is leading the country in reform of the labor system. The situation in reform in the province is really heartening.

Having taken root in the hearts of the people, reform has now become a strong motive force in pushing social progress and economic development forward in our province. We have already built a multilevel open area comprising the Shenzhen, Zhuhai, and Shantou special economic zones, the island of Hainan which is practicing a special policy, the cities of Guangzhou and Zhanjiang which are implementing the opening-up policy, and the Zhu Jiang Delta economic development zone. All walks of life, all fronts, and all units throughout the province are engaged in reform. The masses look forward to reform, call for reform, are engaged in reform, and appreciate reform because it has brought them hopes and advantages. Take the construction of roads and bridges as an example. We had been powerless for years in face of our province's inefficient highway network which was crisscrossed by rivers. In the past few years, by adopting the reformatory method of bridge construction financed by locally raised funds and tolls levied on bridges, we have built more than 150 bridges. Nowadays, in general, cars and trucks no longer have to line up when crossing rivers except at certain crossing points where huge bridges are under construction. When passing over the bridges people may think of the advantages of reform, and when lining up for taking ferries they may realize the necessity of reform. The reform has led us to a wider and wider path and enabled people to lead increasingly better lives. Facts have shown that only the opening-up process and reform can result in the good situation today, and there will be neither a way out nor hope without the reform.

In the wake of the in-depth development of the reform, many outmoded concepts are facing challenge and undergoing changes. Some economic concepts that were regarded wrong in the past have now been accepted as correct. People are forsaking the conceptual framework of product economy and praising the commodity economy. The overthrow of outmoded thought will naturally result in economic boom. The marvellous development of banana production in Gaozhou County in the past few years is excellent evidence. The county's output value of bananas and fruits totals 100 million yuan a year. To market such a great amount of products is naturally a difficult task. The people of Gaozhou County have adopted flexible measures to make use of multiple marketing channels and to reduce intermediate links,

and have thus appropriately solved the problems. For example, three girls in the county have joined together to establish a marketing network: The first girl is in charge of purchasing bananas from local farmers, the second in charge of transport, and the third in charge of the marketing shops they have set up in Hunan Province. As the bananas are fresh, they always sell out very soon and the proportion of goods damaged is minimized. Making use of this method and the price difference between the two areas, the three girls have made great profits. Their way of doing business surely would have been denounced as a speculation and profiteering practice in the past. But today people realize that this is a good method to invigorate commodity circulation and enliven the economy. Without introducing reform and promoting the commodity economy, Gaozhou will never be able to solve the banana marketing problem and promote banana production. The situation in other trades is similar. People have more and more clearly realized that outmoded thoughts and concepts prevalent in the past, must be replaced by new ones in order to introduce reform.

Then where should the stress be placed in the course of our province's current reform? The answer is that it must be placed on implementing the principle of "consolidation, digestion, replenishment, and improvement" so as to make good preparations for next year's reform on the basis of thorough investigations and studies. First of all, we must invigorate enterprises. When enterprises are invigorated as the cells of the social economy, the whole economy will also be invigorated. The key to invigoration of enterprises lies in the transfer of power to lower levels. Recently a great drive to examine the implementation of the policy of delegating decision-making power to enterprises has been launched throughout the province. A provincial on-the-spot meeting to promote the responsibility system regarding management objectives for the term of office of plant directors (managers) held in Maoming City demanded that over 70 percent of the enterprises in the province adopt the system this year and next. Now, all cities and prefectures are carrying out the guideline from the Maoming meeting and some units have even developed the system further. They have done a good job. And I hope their original practice will enrich the Maoming experience. Second, it is necessary to enliven the market. Recently, we have been working out a reform plan aimed at invigorating the production means of market in the province. And the first part of this plan is to invigorate the steel products market. At present, planned allocation is the main supply channel for steel products in our country, while regulation by the market mechanism is the auxiliary. There are few channels, too many intermediate links, and a double-track pricing system. Such a supply system has both advantages and disadvantages. It may hamper implementing the policy of transferring decision-making power to lower levels and the development of production. In order to expand enterprises' decision-making power regarding the purchase and sale of steel products, invigorate them, lighten their financial burden, and encourage a change in government agencies' economic administrative functions, the provincial authorities are planning to further open the steel products market, adopt a supply method with more channels and fewer intermediate links, and allow the suppliers to market steel products like ordinary commodities after

fulfilling their quotas for steel supply to enterprises, with a view to invigorating the market. So, enterprises will be able to compete with each other on an equal footing, and malpractices with regard to materials supply can be prevented. While opening up the means of production market, we must also open the commodity market, the money market, the information market, and the technology market, step by step, and allow a reasonable flow of labor force. Third, it is necessary to make efforts to change government agencies' economic administrative functions. As the decision-making power is being delegated to enterprises and the market is being opened and invigorated, government agencies' role can be changed. To put it more precisely, their main function can be shifted from direct to indirect control. Thus they will be able to devote their attention to macroeconomic control and administration, the coordination of planning and social service. In brief, they should take care of what they are supposed to deal with. In this connection, the departments concerned are making investigations and studies.

In the wake of the in-depth development of the economic structural reform, we are feeling more and more strongly that we will fail to keep up with the developing situation if we do not introduce reform of the political structure. For this reason, our province has placed reform of the political structure on the agenda according to the central authorities' plan. Undoubtedly the reform will be a complicated social system engineering project which will encounter tremendous difficulties. We cannot expect all measures to be perfect from the very beginning. By and large, we must be confident that difficulties will be overcome so long as we follow the central authorities' policy and enjoy the masses' support, and that Guangdong Province will continue to make progress in persisting in the opening-up process and the reform.

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PROVINCIAL AFFAIRS.

JILIN CONGRESS REPORT ON ECONOMIC DEVELOPMENT

SK251157 Changchun Jilin Provincial Service in Mandarin 2200 GMT 24 Sep 86

[Text] The 21st Standing Committee meeting of the 6th provincial People's Congress held a plenary meeting on the afternoon of 24 September. Entrusted by the provincial government, Li Decheng, director of the provincial Planning and Economic Commission, gave a report on the implementation of the provincial economic and social development plan since the beginning of this year. In the report, he gave an account of the province's implementation of the national economic and social development plan in the first 8 months of this year, the major work and tasks in the course of implementing the plan, the current problems, and the arrangements for the next step of work.

He said: Since the beginning of this year, our province has come across many problems in economic development. However, under the leadership of the party committees and governments at all levels, and through the common efforts of the people of various nationalities throughout the province, our province witnessed a steady and coordinated economic development during the January-August period. The situation in implementing the plan has been comparatively good. The present major problems are: The economic results of the industrial sector are not good enough; some major production avenues between the urban and rural areas are not clear; and the factors of increase in expenditures and decrease in revenue have markedly increased in number. Many things which should be done have not been carried out because of limited financial resources.

The report defines six tasks which should be carried out in the next 4 months:

1. Adopting effective measures from all fields to make the rural antidisaster and self-salvation work successful, and concentrating all manpower and material and financial resources that can be gathered on making arrangements for the production and livelihood of the people in the disaster areas.
2. Trying by all possible means to promote industrial production, to increase production and income, and to comprehensively fulfill this year's plan. Enterprises which have favorable conditions for increasing production and income should be given greater power, and enterprises which produce



products that can find a ready market and raise economic results should be rewarded.

3. Implementing the economic responsibility system, and further vitalizing enterprises.

4. Realistically strengthening the work of assessing the quality of products and material consumption, and integrating the targets, responsibility, assessment, and distribution together.

5. Readjusting the product mix, actively developing new products, arranging for urban and rural markets, opening up commodity circulation channels in the urban and rural areas, and organizing more industrial goods to the rural areas.

6. Grasping the arrangements and implementation of next year's plan, so that all policies will be issued, targets will be implemented, and measures will be defined at an early date; and creating conditions for developing all undertakings next year.

The committee members also heard a report given by (Sun Yaoting), deputy director of the provincial Financial Department, on Jilin Province's implementation of the budgetary plan for the 1986 January-August period, and a report given by (Zhu Wencai), director of the provincial Radio and Television Department, on the province's situation in radio and television work.

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PROVINCIAL AFFAIRS

SHANDONG GOVERNOR ON FULFILLMENT OF 1986 WORK

SK190358 Jinan Shandong Provincial Service in Mandarin 2300 GMT 18 Sep 86

[Excerpts] On the morning of 18 September, the provincial party committee and the provincial government held a meeting with the participation of principal responsible persons of the provincial-level departments. At the meeting, Li Changan, deputy secretary of the provincial party committee and governor of the province, reported on the situation of the work done in the first 8 months of this year and arranged the tasks for the latter 100-odd days of this year.

Comrade Li Changan said: Since the beginning of this year, the party committees and the governments at all levels, and all departments throughout the province have creatively carried out their work by persistently implementing reform, the open policy, and the policy of enlivening the domestic economy, and by persistently grasping both the material and spiritual civilizations. All fronts have scored new achievements. New development has been made in the rural economy. The province has purchased 3,280 million jin of summer grain, realizing an increase of 1,320 million jin over that of last year and setting a record. The total output value realized by town and township enterprises showed an increase of 40.1 percent over that of last year. The industrial output showed a stable increase. The total industrial output value realized in the first 8 months of this year reached 38 billion yuan, an increase of 5.27 percent over that of the corresponding period of last year. Both urban and rural markets were brisk. Some commodity prices were reduced while some remained stable. Revenue reached 5,015 million yuan, slightly higher than the industrial growth rate. Through reform, new progress and breakthroughs were made in the scientific and technological, educational, public health, cultural, and physical educational undertakings. Great achievements were made in rectifying work style of organs. The education on disseminating general knowledge of the law has been carried out comprehensively. The education on ideals and discipline has been carried out more extensively and solidly. So far, the organs at or above the county level across the province have transferred 2,127 cadres to the lower levels. Of these cadres, 1,134 were transferred from the provincial-level organs. These cadres have helped establish contacts between the higher and lower levels, improve the work style of organs, and strengthen the work of grassroots units.

Governor Li Changan said: There are 100-odd days left in this year. The tasks ahead of us are arduous. The industrial growth rate should reach more than 12 percent, and the revenue growth rate should be higher than the average level in the first 8 months of this year. We still have a lot of work to do in order to realize a fundamental turn for the better in party style and social order. The remaining 100-odd days are a key period of the first year of the Seventh 5-Year Plan. Thus, leaders at all levels should redouble their efforts, arrange the work for each and every day, and make good preparations for the work of next year. We should make efforts to conscientiously grasp the rural party rectification work, to achieve the development of town- and township-run enterprises and construction of water conservancy works, and to capture an overall success in this year's work.

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PROVINCIAL AFFAIRS

OPEN POLICY INVIGORATES XINJIANG'S ECONOMY

HK020831 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 1 Oct 86

[Excerpts] The policy of opening up to the outside world and enlivening the domestic economy has greatly invigorated the region's economy. The region's economic pattern is now switching from the traditional closed or semi-closed into the open type.

According to incomplete statistics, the region has established lateral economic ties with over 10 central government ministries and commissions, 28 provinces, municipalities, and autonomous regions, and has trade relations with over 50 countries and areas.

Lateral economic ties have greatly strengthened cooperation between regional enterprises and backward local enterprises, between central cities like Urumqi, Shihezi and all other prefectures, between central units in Xinjiang and nearby prefectures and counties in the fields of economy, technology, and human resources. This has not only changed the production structure, product mix, and economic structure in all areas of the region, but has also strengthened their economic power. Through lateral economic ties, Kashi Prefecture in southern Xinjiang, a remote area which is generally lacking in information and which has poor transport facilities, put 28 items into operation in the first half of this year and increased its output value by over 10 million yuan.

In recent years, the region has developed economic ties with other provinces, cities, and autonomous regions. Items of cooperation between the region and other provinces, cities, and autonomous regions have expanded from the industrial field to the agricultural, animal husbandry, scientific, technological, commercial, trade, educational, and cultural fields. The content of cooperation has switched from unitary technological cooperation to relatively large construction projects. From January to August this year, over 20 economic and technological cooperation delegations from 16 provinces, municipalities and autonomous regions inspected the region and signed letters of intent with the region on 1,600 cooperation projects.

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## ECONOMIC DEVELOPMENT ZONES

### INDUSTRIAL VALUE OF NORTHEAST ECONOMIC ZONE

SK010828 Shenyang DONGBEI JINGJI BAO in Chinese No 65, 19 Jul 86 p 1

[Text] According to the materials provided by the statistical information center of the northeast China Economic Zone, the economic zone created 68.26 billion yuan in industrial output value in the first half of this year, showing a 5.5-percent increase over the corresponding 1985 period. The growth of light industry was greater than that of heavy industry. The output value of light industry totaled 23.64 billion yuan, an 8.9-percent increase over the corresponding period of last year; and that of heavy industry totaled 44.62 billion yuan, a 3.7-percent increase. The ratio of light industry to heavy industry changed from 33.5 to 66.5 to 34.6 to 65.4.

In the first half of this year, Liaoning Province created 34.021 billion yuan in industrial output value, an increase of 4.1 percent over the corresponding period of last year and fulfilling the annual target by 47.5 percent. The output value of light industry totaled 10.843 billion yuan, a 5.4-percent increase over the corresponding 1985 period; and that of heavy industry totaled 23.177 billion yuan, a 3.6-percent increase.

In the first half of this year, Jilin Province created 11.305 billion yuan in industrial output value, an increase of 8 percent over the corresponding period of last year and fulfilling the annual target by 49.8 percent. The output value of light industry totaled 4.668 billion yuan, a 13.3-percent increase; and that of heavy industry totaled 6.637 billion yuan, a 4.6-percent increase.

In the first half of this year, Heilongjiang Province created 18.104 billion yuan in industrial output value, an increase of 4.6 percent over the corresponding period of last year and fulfilling the annual target by 48.3 percent. The output value of light industry totaled 6.093 billion yuan, an increase of 6.8 percent; and that of heavy industry totaled 12.011 billion yuan, an increase of 3.5 percent.

The three leagues and one city of eastern Nei Monggol created 4.827 billion yuan in industrial output value in the first half of this year, an increase of 8 percent over the corresponding period of last year. The output value of light industry totaled 2.032 billion yuan, showing a 14.3-percent increase; and that of heavy industry totaled 2.795 billion yuan, a 3.8-percent increase.

The volume of retail commodity sales in the Northeast China Economic Zone was stable with some increase in the first half of this year, totaling 30.299 billion yuan, which represented a 10.3-percent increase over the same 1985 period. Of this sum, the volume of Liaoning Province was 12.215 billion yuan, a 7.1-percent increase over the same 1985 period; that of Jilin Province 6.936 billion yuan, a 16.2-percent increase; that of Heilongjiang Province 9.247 billion yuan, a 9.7-percent increase; and that of the three leagues and one city in eastern Nei Monggol 1.9 billion yuan, a 13.9-percent increase.

Capital construction investment of state-owned units in the Northeast China Economic Zone totaled 4.299 billion yuan in the first half of this year, showing a 3.2-percent increase over the corresponding 1985 period. Of the sum, that of Liaoning Province was 1.767 billion yuan, a 14.2-percent increase; that of Jilin Province was 460 million yuan, a decline of 2.4 percent; that of Heilongjiang Province was 1.38 billion yuan, a 6.1-percent increase; and that of the three leagues and one city in eastern Nei Monggol was 692 million yuan, a decline of 18.4 percent.

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## ECONOMIC DEVELOPMENT ZONES

### OUTLINE OF NORTHEAST ECONOMIC ZONE DEVELOPMENT

SK170451 Shenyang DONGBEI JINGJI BAO in Chinese No 78, 2 Sep 86 p 2

["Excerpts" of the Outline of Strategies for the Economic and Social Development of the Northeast China Economic Zone]

[Text] Editor's note: The "Outline of Strategies for the Economic and Social Development of the Northeast China Economic Zone" (draft after the third revision) is composed of 70 articles in 16 chapters, totaling about 20,000 characters. The subjects of the 16 chapters are as follows: the position and functions of the Northeast China Economic Zone; the strategic goals and guiding ideology; accelerating the transformation of traditional industries and actively developing new industries; accelerating the development of the energy industry with dual emphasis on exploitation and conservation; developing transportation, posts, and telecommunications on a priority basis; developing modern large-scale agriculture; restoring and developing forestry resources; protecting and rationally utilizing water resources; strengthening ecological construction and protecting and improving the ecological environment; greatly developing the tertiary industry; establishing export-oriented production networks to increase the ability to earn foreign exchange; strengthening the construction of the urban infrastructure; actively training talented people; geographical distribution and economic cooperation; persistently taking reform as the guarantee for implementing the strategies for development; and strengthening the functions of planning, cooperation, and coordination of the Northeast China Economic Zone Planning Office.

At the recent fourth symposium on the strategies for the economic and social development of the Northeast China Economic Zone, more than 200 delegates from the three provinces and one region of Northeast China basically affirmed this "outline" and advanced some opinions to supplement and revise it. In order for the cadres and people in Northeast China to understand the "outline," we now publish excerpts of some chapters and articles as follows. The subheads have been added by this newspaper. [end editor's note]

## The General Situation of the Northeast China Economic Zone

### 1. Characteristics

The Northeast China Economic Zone is composed of Liaoning, Jilin, and Heilongjiang Provinces, and the Hulun Buir, Hinggan, and Jirem Leagues and Chifeng City in the eastern part of Nei Monggol Autonomous Region. It covers an area of 1.24 million square km, one-eighth of the nation's total territory, and has a population of 103 million, 10 percent of the nation's total. It is the country's earliest industrial base, with heavy industry as the main component, and with agriculture, light industry, and various infrastructural facilities developing in an ever-coordinated manner. With close inherent connections in economic and social development, and ecological development, the provinces and region in Northeast China constitutes an interdependent economic zone for simultaneous development.

### 2. Advantages

The Northeast China Economic Zone possesses many advantages:

1. It has abundant mineral resources and a great potential for development. Verified petroleum reserves throughout the zone account for more than half the nation's total, iron ore reserves one-fourth of the nation's total, and coal reserves nearly 10 percent of the nation's total, and its nonferrous metal and other nonmetal reserves also account for a fairly large national proportion.

2. The zone has plains good for farming, hilly areas good for afforestation, grassland good for animal husbandry, and oceans and inland water areas good for fishing, and the chernozem, the focus of world attention, is distributed in the great plain of the northeast. The Sanjiang, Songnen, and Songliao plains have always been called the granary in North China. The Da Hinggan Ling, the Xiao Hingan Ling, and the Changbai Shan are an important forestry base of the country, and their timber reserves total 4 billion cubic meters, ranking first in the country. The Hulun Buir and the Horqin grasslands are an animal husbandry base well-known in the country.

3. It has a substantial industrial foundation. The economic zone has 44,000 industrial enterprises with 140 billion yuan worth of fixed assets. It is a comparatively highly industrialized zone, with a ratio of industrial output value to agricultural output value of 77 to 23. In the total industrial output value of the zone, the output value of heavy industry amounts to 64 percent, and in the output value of heavy industry, that of the raw materials industry amounts to more than 65 percent. The economic zone has more than 30 cities with a population of more than 500,000, and Shenyang, Harbin, Changchun, and Dalian Cities along the Harbin-Dalian railway have become fairly influential industrial, transportation, trade, education, science and technology, and information service centers of the zone.



4. It has a fairly high capacity for coordinated industrial production. Its capacity for iron and steel and rolled steel production amounts to one-fourth of the nation's total, that for petroleum production six-tenths, that for natural gas production one-third, that for crude oil processing one-third, that for machine tool production one-sixth, that for motor vehicle production one-third, and that for power generating equipment production 40 percent. It is a machinery and raw materials industrial base of the country.

5. It has convenient transport facilities. Its railway transport mileage is nearly 15,000 km, with the average per-square km density 1.2 times greater than the national average. It has more than 12,000 km of roads and 2,178 km of coastal lines. The annual cargo handling capacity of Dalian Harbor is 43 million tons. The economic zone has established a communications and transportation network with railway, road, and water transport as the focus, and which includes air and pipeline transportation.

6. The entire economic zone has 117 colleges and universities and some 250 secondary specialized schools. If the scientific and technological forces of departments and enterprises are included, it has more than 1.5 million scientific, technical and teaching personnel which represent rich intellectual resources.

The Northeast China Economic Zone, which is playing a role as an iron and steel base, an energy base, a machinery base, a chemical industrial base, a forestry base, and a grain base, occupies a decisive role in the more modernization drive of the country.

### 3. Disadvantages

The Northeast China Economic Zone has both prominent advantages and various factors affecting economic and social development. The major factors are as follows: The economic zone is short on energy resources and water sources. Its transportation, postal, and telecommunications capacity falls short of social demand. The majority of enterprises equipped with outdated equipment, backward technical methods and technologies, and without reasonable industrial, product, and technological structures should immediately conduct restructuring and technological transformation. Economic development is uneven. The economy in the southern and central parts is comparatively well developed, that in the western part is rather backward, and the mountainous areas in the eastern part are economically developing areas. The development of primary, secondary, and tertiary industries is uncoordinated. The development of agriculture and the light and tertiary industries is not suited to that of the heavy and raw material industries. The incompleteness of so many urban infrastructural projects that should have been completed has affected social economic development and the improvement of the people's livelihood. Economic construction is divorced from ecological construction. Thus, natural resources and ecological environment have been damaged. The "extensive," "multipurpose," and "closed" pattern of economic development which has been shaped for many years hinders the social, economic, and technological development and the exploitation of advantages. The management system where

barriers exist among different departments and different regions has become a factor affecting economic development.

#### Build Modern Large-Scale Agriculture and Realize Specialization, Commercialization, and Modernization of Agricultural Production

With regard to developing the rural economy, we must persist in the orientation of socialist modern large-scale agriculture and take the road of realizing both economic and ecological results so as to gradually realize the specialization, commercialization, and modernization of agricultural production. We should reasonably readjust the agricultural structure in line with the laws of nature and economic laws. We should set up an agricultural production structure and commodity bases with special local characteristics in accordance with the principle of taking advantage of favorable conditions and avoiding weaknesses and in line with differing local conditions. By maintaining a steady increase in grain production, the Songliao, Songnen, and Sanjiang plains should be organized into multiple-producing commodity bases focusing on corn and soybeans. The grasslands in the western part of Northeast China, particularly the Hulun Buir and Keerqin grasslands, should set up commodity bases focusing on developing animal husbandry and livestock products. The Da Xingan Ling, Xiao Xingan Ling, and Changbaishan areas should set up commodity bases focusing on developing forestry and processing native and special products. The Liaodong peninsula and the Liaoxi corridor should vigorously develop the production of fruits, aquatic products, and cash crops and set up highly commercialized production bases. The suburban areas of big cities and the areas linking the urban areas with rural ones should focus on developing the production of vegetables, meat, eggs, milk, poultry, fish, fruit, and foodstuffs, and should set up agricultural and sideline products bases with the focus on serving the cities.

In order to improve the rural economy of Northeast China, we should accelerate the technical transformation of agriculture. Technical transformation of agriculture should be carried out with the focus on developing land, building and repairing water conservancy projects, increasing the application of fertilizer, selecting and growing fine seeds, mechanizing farm work, and applying advanced cultivation and forage-processing techniques. We should continue to improve the rural economic system and strengthen the construction of market towns. Efforts should be made to vigorously improve the construction level of the existing market towns and to expand their marketing scope. The rural areas should strengthen the construction of infrastructural facilities suitable for rural commodity circulation and appropriately develop cultural, educational, and welfare facilities.

#### Concentrate on Building Forests to Keep Mountains Green Forever, and Vigorously Restore and Develop the Forest Reserves of Northeast China

Although Northeast China is rich in forest reserves, its forest reserves are endangered due to the long-term tendency of stressing deforestation and neglecting afforestation. In order to pay off historical "debts" and to make the volume of forest reserves reach a peak level, we must develop the forests

persistently in line with the strategic principle of "focusing on building forests, linking deforestation with afforestation, striving to keep the mountains green forever, and always maintain the utilization value of forests." We should give priority to forestry building. In accordance with the demand that "the growth volume of forests must be higher than the deforestation volume," we should conscientiously achieve afforestation and reforestation in order to increase the volume of forest reserves. Areas that lag behind in terms of their reforestation work should concentrate on building man-made forests and enthusiastically develop fast-growing forests. Areas that have done a fair job in reforestation should concentrate on tending man-made and natural forests. Areas with more secondarily natural forests should concentrate on upgrading the quality of forests and increasing the forest reserves. Areas whose forest reserves have dried up due to excessive deforestation should strengthen cultivation and guard against deforestation so as to rehabilitate the forest reserves. In terms of cultivating forest reserves, we should comprehensively grasp the work of building, tending, managing, and protecting the forests and really ensure that each and every tree we plant will grow well in an effort to increase the forest reserves and the annual average forest growth rate. We should reasonably and properly set the deforestation volume.

In lumbering, we should resolutely implement the principle of fixing the amount of lumbering according to timber reserves and ensuring that the amount of lumbering does not exceed the growth amount. We should also comprehensively formulate medium- and short-term plans for building forests and carrying out lumbering operations for everlasting utilization. Timber for local consumption, for forestry industrial enterprises, and for supporting other localities should be included in the lumbering plan in a unified manner and reckless tree felling should be strictly forbidden. We should open up more employment avenues for job-seeking youths in the forestry areas, organize the people to afforest the land on a contract basis, carry out timber processing work, comprehensively utilize all kinds of surplus materials, develop diversified economy in the forest areas, and solve the problems of educated youths in the forest areas, who simply seek employment from the forestry sector. We should advocate the practice of using coal instead of timber and planting firewood and charcoal forests in an effort to solve the energy problem in the livelihood of the people in the forest areas. We should try by every possible means to reduce the irrational amounts of lumbering and consumption.

It is necessary to implement the principle of building forests to maintain forestry and to set up forestry funds. We should reform the forestry system, thoroughly implement the system of separating the functions of forestry enterprises from government management, organize and establish local forestry administrative organs, make afforestation and lumbering conditional on each other, place the lumbering of forestry industrial enterprises directly under the supervision of the forestry administrative departments, and realistically change the situation of paying attention only to lumbering and neglecting afforestation.

## In Strengthening the Building of City Infrastructures, the City Governments Should Serve Economic Development and Improve the People's Livelihood

Northeast China has a fairly large number of large and medium-sized cities. For a long time, affected by the old ideas of "production first and livelihood second," city infrastructure has been neglected. In strengthening the building of the urban infrastructure, we should, in line with the needs of developing production and people's livelihood, stress the building of some important service facilities for urban transportation, communications, power and water supply, water drainage, heating, gas supply, residential housing, environmental management, culture and education, public health, and commerce. We should do a good job in renovating the old revolutionary base areas and building the new areas in a planned manner, integrate the geographical distribution of enterprises with various service facilities, make overall planning, and better display the role of the urban infrastructure.

In accelerating the building of urban infrastructures, we should formulate appropriate measures, laws, and regulations to guarantee the smooth construction of urban infrastructures. Urban public service facilities should be used on a paid basis and urban residential housing should be gradually commercialized. We should formulate and implement the urban construction management law and collect capital construction and land taxes from newly established enterprises. The financial and banking departments should appropriately increase the proportion of investment and loans in building the urban infrastructure and should give preferential treatment in terms of paying interest and in the period of repaying loans. We should collect funds through various channels and raise the capacity of the urban areas to transform and develop through their own efforts.

City governments should persist in serving economic development and improving the people's livelihood, and in creating a favorable environment for attracting domestic and foreign investment. We should free ourselves from direct intervention in daily economic work, do a good job in conducting overall cooperation, provide supervision and render services.

## Free Ourselves From the Traditional Strategic Trade and Build an Open and Intensive Economic Zone

The major strategic goal for the northeast economic zone by the year 2000 should be as follows: Under the premise of unceasingly raising economic results, we should quadruple the total industrial and agricultural output value in the economic zone and enable the livelihood of the people to attain a comparatively well-off level. To realize this strategic objective, we should free ourselves from the influence of the traditional strategic mode and enable the strategic guiding ideology to undergo a fundamental change. Based on the characteristics of the objective law for developing the socialist commodity economy and the situation in the northeast region, the strategic guiding ideology of the northeast economic zone should be as follows: We should first carry out technological progress, consider reform, opening to the outside world and invigorating the economy as a driving force, focus the work on

achieving benefits and increasing output value, and adhere to the overall strategy of improving the production setup and developing coordinatively. It is necessary to persist in the principle of taking agriculture as the foundation and allowing industry to play a dominate role, and to coordinatively develop the primary, secondary, and tertiary industries as well as agriculture and light and heavy industry. We should also coordinate the development of basic industry and the infrastructure with that of the processing industry, and economic construction with ecological construction, and follow the road of fewer inputs, high yields, good quality, and greater returns and enabling the people to receive more real benefits.

In handling economic relations, it is necessary to effect the following strategic changes. First, we should change the lopsided pursuit for increases in growth rate, output value, and output into simultaneous increases in growth rate and economic results with the improvement of economic results as the major purpose, and with improvement of product quality, reduction of material consumption and costs, and increase in profits placed in the first place. Second, in expanding production we should change such means as undertaking new projects and increasing input into intensive means, such as carrying out technical transformation at old enterprises, facilitating the technological progress of enterprises, and enhancing their ability for transformation and development. Third, we should change extensive management into intensive management, putting an end to backwardness in technology, products and management, and strive to promote broader and more intensive processing of products. Fourth, we should change the "multipurpose" and "closed" economic pattern into an open, specialized and socialized pattern and open to domestic and foreign markets in an all-round manner. Fifth, we should change the lopsided emphasis on the development of material resources into development of intellectual resources first, combine these two developments organically, and promote the development of material resources with that of intellectual resources. Sixth, we should change the mainly direct control over the macroeconomy into mainly indirect control, improve macroeconomic management, and gradually perfect the market mechanism. We should strive to build Northeast China into an open and intensive economic zone with coordinated development.

Developing Transportation, Posts and Telecommunications on a Priority Basis, with Railways as the Framework and Harbors as the Doors, and Establishing a Highly Efficient Transportation Network.

Being very incommensurate with economic and social development, the transportation, post and telecommunications facilities of Northeast China should be developed more quickly. In line with the principle of comprehensive development and coordinated development, Northeast China should be built into a highly efficient comprehensive transportation network which has railways as the framework and harbors as the doors with the coordination of road, waterway, air, and pipeline transportation, which is compatible with the geographical distribution of productive capacities, and which has advanced technologies and equipment and rationally distributed roads, into a modern telecommunications network with satellite, optical fiber, data communication,

and program-controlled telephones as the main part, and into a multi-layer, multi-channel postal network extending in all directions.

### 1. Railways

In the 7th 5-Year Plan period, with the emphasis on increasing the capacity for coal, import- and export-material and passenger transportation, we should do a good job in the transformation and development of the three passageways for coal, and import- and export-material transportation, and for harbor transportation, build additional double-track lines in the northern part, and build local railways, such as Shenshan [3088 1472] and two other railways, a feeder railway for coal transportation in the east of Longjiang, and the Jining-Tonghua railway. In the 2d 10-year period we should electrify the Harbin-Dalian trunk railway, link the new trunk railways leading to harbors in both the east and west, improve the three trunk railways running from north to south, the four trunk railways running from east to west, and the transportation network of import and export passageways, increase the proportions of double-track lines, and electric and diesel locomotives, and develop long and large heavy-duty trains. In this way, a transportation network which has state railways as the mainstay and local railways as a support, which has both trunk lines and feeder lines, which links harbors with trade outlets, and whose trunk lines are mainly double-track ones, and are run by trains drawn by electric or diesel locomotives will be gradually established in the economic zone.

### 2. Roads

In the 7th 5-Year Plan period, with the emphasis on renovating and improving the standards and grades of industrial roads [jing ji gong lu 4842 3444 0361 6424], we should renovate the trunk lines of such state roads as the Shenyang-Dalian and Beijing-Harbin roads to increase their capacity. In the 2d 10-year period, all the disconnected state roads should be connected, major industrial trunk lines should reach the standards of first- and second-grade roads, a number of industrial roads and township roads to transport energy resources, grain and import- and export-materials should be developed, and first-grade roads and expressways should be built in a selective and step-by-step way in line with the growth in transportation volume. By the end of this century, we should strive to establish a road transportation network centering on large- and medium-sized cities and extending in all directions linking railways, harbor trade outlets, and townships.

### 3. Harbors

We should renovate Dalian and Yingkou harbors on a priority basis, continue the construction of the Bayuquan Harbor in Yingkou and the Heshangdao Harbor in Dalian, develop Dalian's Daliaowan Bay, and the new areas of Dandong and Jinzhou harbors, build additional specialized wharves, and renovate and expand small- and medium-sized harbors. We should gradually establish a sea transportation network with coordinated large, medium-sized, and small harbors, centering on Dalian Harbor and flanked by Dandong, Yingkou, and Jinzhou

harbors. We should actively dredge the Song Jiang course, expand Jiamusi, Tongjiang, Heihe, and other border harbors, and develop and utilize the water resources of the Songhua Jiang and Liao He to develop navigation and establish an inland waterway transportation network.

#### 5. Civil Aviation

We should focus on rebuilding the Changchun and Dalian airports and building Shenyang's Taoxian Airport. Cities with conditions should rebuild their airports into ones for army and civilian use in an effort to gradually establish an air transportation network coordinately composed of large, medium-sized, and small airports and where the Shenyang, Dalian, Changchun, and Harbin airports play a dominant role.

#### 6. Post and Telecommunications

We should focus the construction of postal and telecommunications facilities on the four major communications centers respectively in Shenyang, Changchun, Harbin, and Dalian. We should enthusiastically develop program-controlled automatic exchange equipment and satellite, optical fiber, and data communications. We should set up an optical fiber communications system linking Beijing, Shenyang, Changchun, and Harbin and build satellite television ground stations in some areas. We should develop data communications and telex services and strive to gradually set up a telephone exchange network linking different districts and dominated by Shenyang, as well as a numerical communications network linking key cities so as to greatly upgrade the popularization of urban and rural telephones and the efficiency of the postal and communications system.

#### Expanding Exports to Create Foreign Exchange Is an Important Step for Enlivening the Economy of Northeast China

The total agricultural and industrial output value in Northeast China accounted for one-sixth of the country's total. Although Northeast China has many advantages to develop the export trade, the purchasing volume of export commodities only accounted for 5.3 percent of its total industrial and agricultural output value due to the long-term influence of the "closed" economic pattern; particularly, the export commodity structure and the quality of export commodities failing to meet the demands of international markets. We still have a long way to go in terms of export commodity development, since Northeast China has good economic advantages and status. We should gradually change the import-oriented economic structure, take into consideration both imports and exports, concentratively and gradually develop an export-oriented economy, and regard expanding exports to create foreign exchange as one of the strategies for rejuvenating Northeast China, serving the entire country, marching toward the world, and realizing a strategic turn.

In order to expand exports to create foreign exchange, the Northeast China economic zone should concentratively attach primary importance to increasing the production of export commodities and goods in line with the demands of



international markets and set up a fine foreign export trade system. The economic zone should set up an export commodity production system with special characteristics in accordance with the demands of international markets. With regard to exporting agricultural and sideline products, Heilongjiang should be organized into a soybean export base; Jilin should be built into a base focusing on exporting its corn and native and special products; areas in eastern Nei Monggol should be built into a base focusing on exporting their livestock products; and the Liaodong peninsula and the Liaoxi corridor should be organized into a base focusing on exporting their fruits and aquatic products. In line with the special characteristics of the industrial structure of Northeast China and in accordance with the requirements of international markets, we should readjust the export product structure, strive to expand the proportion of machinery and electronic commodities and precisely processed goods in the total amount of export commodities, and gradually change the situation in which most of our export commodities are roughly processed products and primary products which are made from such raw materials as crude oil and refined oil. We should make the most of the tourist and human resources to vigorously develop tourism, international aviation, sea transportation, the trade to undertake foreign projects on a contract basis, and labor export services. The economic zone should comprehensively give play to the functions of the ports and hinterland to increase results in creating foreign exchange. In order to expand exports to create foreign exchange, we should properly adopt policies of encouragement to fully arouse the enthusiasm of all fields to expand exports.

Carry Out the Principle of Pooling the Efforts of the State, Collectives, and Individuals, and Upgrade the Proportion of Tertiary Industry in the National Economy

A backward tertiary industry is a prominent indicator of the unreasonable and uncoordinated industrial structure of Northeast China. This has seriously affected the development of the national economy and the improvement of the people's material and cultural lives. We should regard the development of the tertiary industry as a key measure for improving the industrial structure and enlivening the economy. Thus, efforts should be made to accelerate the pace of developing the tertiary industry and upgrade its proportion in the national economy. We should transfer surplus and newly added social labor forces to the tertiary industry and ensure that the tertiary industry will work to serve society, apply modern and scientific methods for management, and give play to its role of linking the urban areas with the rural ones, linking the areas inside and outside the economic zone, serving production, and providing convenience to the people's livelihood. The proportion of the tertiary industry in the GNP should increase from the 15 to 20 percent at present to about 40 percent by the year 2000.

The development of the tertiary industry should coordinate with economic and technological development and the needs of the people's livelihood. We should implement the principle of stressing both traditional industries and budding industries and focusing our energy on restoring and developing traditional industries within a short period of time. The traditional tertiary



industries, such as the commercial, catering, service and repair industries, should be strenuously restored and developed and the budding industries, including the information and consulting services, tourism, and advertisement, banking and insurance businesses, should also be appropriately developed so that the tertiary industry will be changed from one of a labor-intensive trade into both labor-intensive and expertise-intensive trade. We should also establish an independent production system and a network which receive support from cities, and with cooperation between the urban and the rural areas, and mutual coordination among various trades.

While developing the tertiary industry, we should spark the enthusiasm of all quarters, implement the principle of pooling the efforts of the urban and rural areas, the state, the localities and enterprises, and the units owned by the state, the collectives, and the individuals, create a trend in which the whole society cares for the tertiary industry, and satisfy the daily growing demands of production and the people's livelihood.

We should proceed from reality and formulate policies to encourage and support the development of the tertiary industry. As for the charges and standard of charges for the tertiary industry, which takes labor services as the main undertakings, we should vary the charges according to different technologies, localities, and seasons. The charges for service trades, which earn small profits or run at a loss, should be flexibly adjusted. We should implement a preferential tax revenue policy, reduce irrational economic burdens, protect the political status and legal rights and interests of businessmen, and formulate definite policies and related laws and regulations to guarantee the smooth progress of the tertiary industry.

#### Accelerate Technological Transformation in Traditional Industries, and Develop Electronics and Information Technology and New Materials

A situation in which equipment is outdated, methods and technology are backward, and the products and management are rough in shape universally exists in the traditional industries of the northeast region. Therefore, we should give prominence to transforming traditional industries, closely integrate the development of the budding industries with the transformation of traditional industries, and apply new and advanced technology to traditional industries to form a new technological structure which combines advanced technology with traditional ones.

In transforming traditional industries, we should focus on transforming six major industries such as electronics, machinery, metallurgy, chemical industry, building materials, and light and textile industries, as well as large and medium-sized key enterprises which produce products for the whole country and for export. In the near future we should technologically transform 52 large and medium-sized enterprises, for they are among the 156 major state construction projects of the 1st 5-Year Plan period, help these enterprises to achieve an advanced technological foundation within a short period of time, and accumulate the momentum for an economic takeoff during the 1990's. In the technological transformation of traditional industries, we

should focus our work on developing quality, brand-name products, products in short supply, export products, and import substitutes, and carry out coordinated reform. We should accelerate the pace of technological imports, raise our capacity to digest, absorb, and create the new, especially the capacity of the major raw material-consuming iron and steel mills, machinery, chemical industrial, petrochemical, and building materials industries as well as other major industries. It is necessary to improve the quality of technological progress of enterprises, exert strenuous efforts to produce intensive processing and precision products, make comprehensive use of various discarded resources, and enable the traditional industries of the northeast region to gradually become industries which economize on natural resources and energy.

The traditional industries in the northeast region are not all rational in structure. Therefore, we should free them from the shackles of the outdated multipurpose and closed modes, transform and strengthen lateral cooperation through readjustment, and realize a new strategic change. We should readjust the production setup and product mix in line with consumers' demands. The policy of opening to the outside world and invigorating the economy should be conscientiously implemented among provinces and regions, departments and enterprises, and multilayered and multi-form lateral economic cooperation and specialized coordination focusing on large and medium-sized key enterprises and competitive products should also be developed. We should pay attention to displaying the technical superiority of military industrial enterprises, organize them to produce products for civilian use, and carry out specialized army-people cooperation.

Along with the transformation of traditional industries, we should develop the budding industries in a planned manner, actively develop, popularize, and apply microcomputer technology, information technology, new materials, biological engineering, lasers, and ocean development technology. To prevent ill-considered development, all provinces should have their own priorities in line with their own characteristics while developing budding industries. The new technological findings which are being used in the development of the three northeast provinces should be gradually spread to the eastern part of Nei Monggol Region in order to promote technological progress and economic development in the eastern part of Nei Monggol region.

#### Take the Development of the Energy Industry as a Strategic Focus

Strained energy resources in Northeast China restrict the development of the national economy. We should, therefore, take the accelerated development of the energy industry as a strategic focus. In eliminating the contradictions in Northeast China energy resources supply, we should emphasize self-reliance while taking supplies from outside the economic zone as a supplement, and persistently "attach equal importance to exploitation and conservation, and regard conservation as a long-term basic state policy." In coal and electricity development, we should resolutely work out overall plans for coal and electricity development and transportation, and carry them out simultaneously to maintain an overall balance and coordinated development. In

petroleum exploitation, we should strengthen prospecting, expand reserves, and maintain a steady production increase. Where conditions permit, we should actively develop new energy resources, such as solar, biological, wind, tidal, geothermal, and ocean energy resources, and gradually have the "multiple energy resources supplement one another."

In developing coal resources, we should focus on the coal mines whose products come under unified state distribution while actively developing local coal mines so that large, medium-sized, and small mines can be developed simultaneously. In the near future we should mainly renovate and expand the old mines in eastern Heilongjiang, central Liaoning and eastern Jilin while building new mines correspondingly. Major coking coal resources should be utilized rationally and exploited in a planned manner. Construction of the three major coal and electricity bases--the Yuanbaoshan, Huolinhe, and Yimin bases--in eastern Nei Monggol should be accelerated. Mining areas should be built into energy bases with electricity supply as their major purpose. In developing the power industry, we should persistently develop hydropower stations and thermal power stations simultaneously, with the emphasis on the latter, and actively develop nuclear power stations. For a short period in the future, we should focus on the renovation and expansion of old power plants, while mobilizing the initiative of all quarters to raise funds to develop power stations through various channels and at various levels. In the future, based on the possibility for a balanced coal supply, we should build power stations at the mouth of coal pits, harbors, or where transportation lines meet in a planned manner, with the focus on renovating key coal mines, developing the three major brown coal bases in eastern Nei Monggol, and building railways and coal shipping harbors so as to gradually establish a rationally distributed energy base where coal and power industries are developed in a comprehensive manner while electricity supply is emphasized. At the same time, we should actively develop the No 2 Songhuajiang, Nenjiang, Mudanjiang, and other hydropower resources and expedite construction of stair power stations [ti ji dian zhan 2748 4787 7193 4541] and small hydropower stations. To change the strained power supply in Northeast China once and for all, we should also actively build the Dongbei nuclear power station.

In Northeast China's petroleum exploitation, we should adhere to the principle of carrying out geological prospecting ahead of others to expand reserves and maintain a steady growth in production. Daqing oilfield should be expanded in both its eastern and western peripheries, and we should strive to maintain its current production level within this century. The Fuyu oilfield should be expanded in its southern and eastern parts, and the Liaohe oilfield should be expanded toward the negative area in its eastern and western parts, and toward the coastal area.

Traditional industries in Northeast China consume large amounts of energy and therefore have a great potential for energy conservation. Major methods for energy conservation should be to develop various energy-conservation equipment, and renovate or eliminate energy-wasteful technical methods or equipment within a fixed time; to rationalize production setups and strictly control the unlimited increase of energy-wasteful industries; to strengthen energy

control, pay attention to the consumption of the units which consume great amounts of energy, and carry out fixed-quota supply; to rationally use resources and do a good job in the comprehensive utilization of various exhaust heat resources, flammable gas, and fuel of low calorific value; to widely apply gas and the central heating system in large and medium-sized cities, and industrial and mining areas; to renovate oil-consuming power plants and boilers, use coal to replace oil, and popularize commonly used coal; and to greatly build fuel forests and develop marsh gas utilization in the rural areas, and realize a benign cycle in marsh gas, fuel, manure, and crop farming in areas where conditions permit.

#### Commercialize the Water Supply, Protect and Rationally Develop Water Resources

Northeast China is poor in water resources, which are distributed irrationally and aligned in an unbalanced manner. The sharp competition for water supplies for industrial and agricultural use, and the ever acute contradiction between supply and demand have become an important factor hindering Northeast China's economic development and affecting the people's lives. To eliminate this contradiction, we should adopt the principle of broadening the sources of supply and reducing consumption with overall measures, exercise unified planning, distribution and management, rationalize the proportion of water for industrial and agricultural use, and for people's daily use, and, while taking both immediate and long-term needs into account, strive to create the best possible results as a whole.

Water for agricultural use should be greatly conserved. Water used in agriculture amounts to more than 70 percent of the total water consumption in the economic zone, and therefore, there is a great potential for conservation. We should strengthen supportive farmland irrigation works, adopt new water- and energy-saving irrigation techniques and methods, and reduce waste resulting from leaking channels and ditches.

The scale of urban development, and the establishment of water-wasting enterprises in water-poor areas should be brought under control and water-wasteful new projects should be built in areas with fairly rich water resources in a planned manner.

Water should be used in a planned, rational and economical way. Based on the principle of commercialized water supply, we should enforce the system of fixed-quota supply, charging according to consumption, and collecting progressive charges on above-quota consumption among factories, farmland, and households, and encourage enterprises to recycle waste water, and households to save water for daily use. Excessive exploitation of subterranean water should be strictly banned, and efforts should be made to prevent Daqing, Shenyang, Harbin, and Shoushan in Liaoyang, four major area where subterranean water is exploited excessively, from expansion and subsidence.

Water resources should be actively developed. We should further raise the utilization rate of surface water, expedite construction of various water reservation works, and build large and medium-sized water conservation works

for controlling purposes in order to regulate surface runoff and prevent large amounts of surface water from emptying into oceans without being used.

Protect and Improve the Ecological Environment and Persistently Develop Economic Construction, Urban and Rural Construction, and Ecological Environment Construction Simultaneously

We should regard protecting and improving the ecological environment and realizing a benign cycle as a national policy, implement it conscientiously, and see to it that economic construction, urban and rural construction, and ecological environment construction are developed simultaneously, and that economic results, social benefit, and ecological environmental results are taken into account.

We should adhere to the principle of combining preventive measures with treatment, with the focus on the former, to tackle problems in a comprehensive manner. We should intensify overall measures to treat major urban polluted areas and serious pollution sources. Technical and engineering methods, and legal, economic and administrative means should be adopted to treat the pollution of rivers, lakes and oceans, and administrative divisions should be eliminated in order to improve the river system of the Songhua Jiang and Liao He in a unified manner. We should guard against and treat farmland pollution and water and soil erosion, increase the organic input in land, and continuously increase soil fertility. Comprehensive measures should be taken to improve grassland, including its soil and irrigation system. Excessive lumbering should be resolutely prohibited. Certain nature reserves should be designated in the mountains which have very important significance in maintaining ecological balance, such as Da Hinggan Ling, Xiao Hinggan Ling, and Changbai Shan, attach strategic importance to them, and protect them. In poverty-stricken areas where forest ecology is seriously damaged, we should regard afforestation as the most important measure for restoring ecological balance, eliminating poverty and achieving affluence, and carry it out generation after generation. Waste gas, waste water, and industrial residue should be properly dealt with, and utmost efforts should be made to turn waste materials into resources, prevent discharged materials from causing pollution, and solve the problems left over from history. The vast urban and rural areas should be planted with grass and trees to increase their forest coverage, improve their mountains, water areas, farmland, grassland, and forests in a comprehensive manner, and create a good ecological environment.

Having Programs Reflect One's Characteristics, Depending on Each Other for Existence, Achieving Mutual Development

In making arrangements for the northeast economic zone, it is imperative to uphold the orientation of carrying out balance arrangements, establishing lateral economic associations, connecting all networks, and achieving harmonious development. In line with their natural conditions, the characteristics of their natural resources, the difference in their economic foundation, and the objective demand of reasonable division in labor in the localities which have excess labor forces, areas in the economic zone should

gradually build their own production structures that are able to bring into play their strong points, to avoid shortcomings, to foster their characteristics, to depend on each other for existence, to achieve mutual development, to enable the factors of productive forces to form a better alignment of their own, and to enable the macroeconomy to exert effect as much as possible.

The gap in development standards in the economy and technology among the middle, eastern, and western areas of the northeast economic zone is fairly large. Judged from national strength and the characteristics of the northeast economic zone, to curtail the gap of development standards among the three areas, it is imperative to improve the middle area's standard to bring along the development of the other two areas in an effort to enable the northeast economic zone to gradually foster an economic style in which harmonious development has been made between the developed and underdeveloped areas and between the main and interrelated industries.

The central cities, such as Shenyang, Dalian, Changchun, and Harbin, and their suburban areas should develop new products with high, precise, and sophisticated technology, which will be sold on both the international and domestic markets and gradually transfer their traditional products, technology, funds, and technicians to the eastern and western areas. On the basis of reasonably protecting the natural resources and ecological environment, the eastern area should uphold the principle of achieving harmonious development among industry, agriculture, forestry, and animal husbandry and should gradually build itself into a base of processing industries of energy resources, forests, building materials, chemicals, timber, and indigenous products. The western area of the northeast economic zone should place its emphasis on conducting ecological construction, accelerating the pace of developing natural resources, and on building the three large bases for coal and power production in order to promote the economic development of the zone. Efforts should be made to organically integrate the development of animal husbandry, forestry, agriculture, and mining with that of the processing industries in order to build a production base in which the processing industries of energy resources, building materials, metallurgy, chemicals, forestry, and animal by-products and light industry are operated. Meanwhile, it is necessary to enhance the construction of local communications and transportation to provide conditions for developing the commodity economy.

In order to reasonably combine the arrangements of the economic zone with its economic structures, it is imperative to earnestly implement the "provisions" issued by the State Council with regard to several questions cropping up in further developing lateral economic associations, to bring into full play the urban influence in multiple functions, and to vigorously develop lateral economic associations and technical cooperation of various kinds at various levels according to the principle of exploiting strong points and avoiding shortcomings, conducting labor division and technical coordination, adopting various measures, seeking mutual benefits and interests, and achieving mutual development.

All-out efforts should be made to carry out "consultations and talks" between the eastern and western areas and to conduct cooperation between the southern and northern areas so that they can gradually narrow the gap between developed and underdeveloped areas and have the entire zone become prosperous in common.

ECONOMIC DEVELOPMENT ZONES

TRADE INCREASES IN GUANGZHOU'S COMMERCIAL MARKET

HK060751 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0603 GMT 3 Oct 86

[Report by Wang Qiang [3769 1730]: "Guangzhou's Commercial Market Becomes Brisk"]

[Text] Guangzhou, 3 Oct (ZHONGGUO XINWEN SHE)--Guangzhou's commercial market, which was dull in the first half of this year, has now taken a turn for the better. Since July, the turnover of retail trade has increased by more than 10 percent over the same period of last year.

At the beginning of this year, there was a sharp drop in the turnover of Guangzhou's retail trade, which was even lower than that of the same period of last year. This phenomenon has not been seen for many years running. But since July, this turnover has sharply increased. Compared with the same period of last year, it increased by 11.2 percent in July and 13.6 percent in August. A trend of continuous growth in the 4th quarter is expected.

According to an analysis by relevant departments, the main reasons for this change is Guangzhou's commercial and retail market are: 1) After the renminbi exchange rate was adjusted downward; the purchasing power of the people was stimulated; and 2) the current reform of the financial system has enlivened the money market and injected in varying degrees new vitality to both commercial and industrial enterprises.

More gratifying news for the people in the commercial circles is that Guangzhou has abolished the last ration coupon for industrial goods and all commodities are now in open-ended supply. This will undoubtedly and greatly stimulate the production of fine-quality products and promote retail business.

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CSO: 4006/54

## ECONOMIC DEVELOPMENT ZONES

### RAPID ECONOMIC GROWTH IN NINGBO REPORTED

Beijing ZHONGGUO SHANGYE BAO in Chinese 17 Jun 86 p 1

[Article by Li Gengchen [2621 1649 2525]: "Ningbo Making Big Economic Strides"]

[Text] Ningbo, Zhejiang Province, has had spectacular economic achievements since it was designated one of 14 opened cities on the coast. In 1985, municipal government revenues burst through the 1-billion-yuan barrier. With its gross value of industrial output at 11.4 billion yuan, it has become one of the 16 municipalities in the nation with output value in excess of 10 billion yuan.

To demonstrate fully its economic progress and promote horizontal economic cooperation with sister cities, an exhibition and trade fair featuring local products was staged in Ningbo on 11-20 June, in which 937 enterprises from the 11 counties (municipalities) and districts within Ningbo's jurisdiction took part. Exhibits included the Meilin brand of canned food and the Peony brand of embroidered silk garments, winners of the international golden leaf award and the national silver shield award, respectively. The "high-temperature instant pasteurizer," made by the Ningbo Food Equipment Manufacturing Plant, is used in the sterilization of milk, beverages, liquors, Chinese medicines, and other fluids. Not only is it highly effective in destroying bacteria, but it also adds a special taste to certain products. The machine fills a technological void in China, ranks among the most advanced in the world, and has saved the nation \$20 million in foreign exchange over the past 4 years.

12581

CSO: 4006/1173



## ECONOMIC MANAGEMENT

### BANKRUPTCY LAW AS WAY TO INVIGORATE ENTERPRISES

Beijing JINGJIXUE ZHOUBAO in Chinese 27 Jul 86 p 4

[Article by Hao Jianguo [6787 1696 0248]: "Summary of Seminar on Bankruptcy Law"]

[Text] 1. On nomenclature of the bankruptcy law and its scope

Five titles were suggested at the seminar: one, "Enterprise Bankruptcy Law of the People's Republic of China;" two, "Enterprise Bankruptcy and Reorganization Law;" three, "Bankruptcy Law," as proposed by places like Shenyang and Wuhan; four, "Bankruptcy and Elimination Law;" and five, "Bankruptcy and Loan Repayment Law," whose proponents argue that the real function of a bankruptcy law is to protect normal lending relations and preserve the socialist economic order.

On the adjustment scope of the bankruptcy law. As far as ownership systems are concerned, one theory is that the bankruptcy law should be applied to all publicly-owned enterprises, Chinese-foreign joint and cooperative ventures, and foreign owned enterprises within the territory of the PRC which are reorganized or go bankrupt. Another school argues that since the law is called "enterprise bankruptcy law," it cannot be limited to publicly-owned enterprises but should be extended to collective enterprises. Still a third school suggests that there should be different bankruptcy laws to adjust enterprises under different ownership systems because the latter vary in their status and in the functions they play in China's political economic life. Hence the state should also treat them differently.

On the applicable scope of the bankruptcy law. One school of thought favors the principle of territoriality, which China's "Bankruptcy Law (Draft)" has indeed adopted. Another school questions how, if the bankruptcy law applies only to enterprises and assets on Chinese soil, we are going to seek repayment when a foreign enterprise goes bankrupt and most of the foreign investor's assets are held overseas. Also, when a Chinese enterprise goes bankrupt, what will happen to its investment overseas? For these reasons, this school proposes the principle of extra-territoriality under which the scope of the bankruptcy law extends to the overseas assets of the individual who has gone bankrupt in order to protect Chinese assets. A third school suggests a "compromise," under which the bankruptcy law is to follow the principle of

territoriality; however, when the assets of a bankrupt enterprise are held overseas, we will handle the matter according to the law of the nation concerned and bilateral agreements.

## 2. On the bankruptcy law's feasibility.

About the conditions for the law's implementation, one school of thought is that it cannot take place under the old economic system but requires a set of fast maturing conditions such as the operational mechanisms of a socialist commodity economy; macroeconomic regulatory mechanisms; a total functional separation between government and enterprises; enterprise autonomy and accountability for its own profits and losses; legislation stipulating the civil liability of publicly-owned enterprises, using their assets as security; reforms in the existing labor system and social security economic system; a socialist labor market; and an open unregulated price system based mainly on market supply-demand relations and under effective macroeconomic regulation by the state. Another school of thought holds that conditions already exist for the implementation of the bankruptcy law, for these reasons: 1) The basic historical condition, namely, commodity production, is in place. The bankruptcy law is a product of the preliminary stage of a commodity economy. Its time has arrived. 2) Conditions most closely related to a bankruptcy law also exist. For example, enterprises are now required to pay taxes instead of turning over their profits and are allowed to keep the after-tax profits. They are also held responsible for their profits and losses. Articles 45 and 48 of the General Rules of the Civil Code in principle define the extent of their liability for the repayment of loans with their assets. Regulations pertaining to the reform of the labor and employment systems will be promulgated by the state shortly. 3) Shenyang, Wuhan, Chongqing, Shanghai and other cities are implementing a bankruptcy system on a trial basis to gain experience.

About the conditions that go hand in hand with a bankruptcy law. One school of thought claims that bankruptcy law and economic structural reform should proceed simultaneously and should be put on hold until other related conditions are in place. Another school claims that economic structural reform is a process. It differs from "group calisthenics" but resembles "pushing a wheelbarrow," which must find its balance as it advances. Similarly, the bankruptcy law can find its bearing only in the process of implementation. The formulation of the bankruptcy law consolidates the achievements of reform and reflects the demand of reform, at the same time giving fresh momentum to reform.

## 3. On tracing the responsibility for bankruptcy.

In the opinion of some comrades, the responsibility for a bankruptcy cannot be limited to civil responsibility. Instead we should look at the specifics of a case and pin down administrative responsibility. Nor can we rule out criminal responsibility. If dereliction of duty is involved, then the culprit should be punished. Should other offenses be involved, the guilty individuals should be held to account. Bankruptcy involves many social economic relations, so different laws are required for its adjustment.

In investigating and pinpointing the responsibility for a bankruptcy, we must seek truth from facts and deal with each case on its merits. If a group is at fault, then the group should be held responsible. If an individual is at fault, then he should be held responsible. Some of the people who run enterprises today were sent there by the departments in charge when the enterprises in question were tottering on the brink of bankruptcy. Others volunteered to go there. (They are not the people who caused the enterprises to lose money.) If the enterprises go bankrupt, they will not be assigned to another leadership post or allowed to run an enterprise for 3 years. This is not exactly realistic.

#### 4. On the limits of bankruptcy.

Some comrades argue that since enterprises differ in their status, social economic functions, and the amount of taxes they pay, and since the marketability, technical conditions, costs, and prices of their products also differ, they do not compete on the same terms. For this reason, there should not be a single set of limits applicable to all.

#### 5. On bankruptcy relief

Criteria for the relief of employees of bankrupt enterprises should be neither excessively stringent nor so generous that they remove any pressure on them.

#### 6. On the bailout period and bailout measures for bankrupt enterprises

What will be an appropriate restructuring period for bankrupt enterprises? A year? A year and a half? Or 2 or 3 years? In the opinion of some comrades, enterprises in different localities differ in their production conditions, so the restructuring period should not be fixed too rigidly. But neither should we let it be changed at will. If the restructuring period is set too short, enterprises may not have enough time to recover and bounce back. If the period is too long, the doomed enterprise may incur further losses. This matter should be further examined.

Some comrades also note that in its rescue period, a bankrupt enterprise is offered many preferential treatments in taxes, loans, and technical support. While they no doubt help its recovery, it is well worth asking whether, from the long-term global perspective, an enterprise about to go bankrupt should be given these numerous preferences. What is more basic and effective is to ascertain exactly where such an enterprise needs assistance. We cannot but offer it assistance and we must not overdo it. Otherwise, enterprises running up losses will become dependent on the government.

#### 7. On the restructuring of bankrupt enterprises

Some comrades argue that restructuring is not an inevitable part of bankruptcy. There should be an examination system to determine whether an enterprise on the threshold of bankruptcy should be restructured. If, after a detailed examination, it is found to be beyond salvage, it should not be allowed to undergo restructuring and should be declared bankrupt outright.

There is also a suggestion to expand the scope of the experiment. First, it may be extended to medium-sized enterprises and small commercial enterprises in the collective sector, followed by medium-sized and small industrial and commercial enterprises in the publicly owned sector. This will provide more practical experience for the implementation of the bankruptcy law.

Today, the bankruptcy issue has become the focus of intense interest in all social quarters. We must step up publicity and ideological work to enhance the workers' understanding of bankruptcy law. Reforms that go hand in hand with the law and related legislation must also be accelerated, particularly the decentralization of managerial power to enterprises and the reform of the price and labor systems.

Some comrades point out that the family output-related system of contracted responsibility was a big break in economic structural reform in rural China, making it possible for the entire rural economic reform to move ahead. So will the enterprise bankruptcy system be the big break for urban economic structural reform in China. Shenyang's experience in the trial implementation of the bankruptcy system as applied to collective enterprises proves that the establishment of a bankruptcy system sounds the alarm for enterprises on the verge of going under, motivating their leaders and employees to help one another and put up a joint struggle to turn the enterprises around.

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6 November 1986

## ECONOMIC MANAGEMENT

## CHEN GUANGYI EXAMINES ECONOMIC REFORM POLICIES

OW010201 Fuzhou FUJIAN RIBAO in Chinese 19 Aug 86 p 1

[By reporters Zhang Lixing and Lin Aizhi]

[Excerpts] At an investigation and study discussion meeting in Fuzhou City on 18 August, Chen Guangyi, secretary of the provincial party committee, said: "Seriously conducting investigations and study is an important measure in implementing the guidelines of the enlarged meeting of the Standing Committee of the provincial party committee. We must solve the question of how to properly implement the Central Authorities' special policies and flexible measures through investigation and study to further promote Fujian's opening to the outside world and economic structural reform and accelerate its economic development."

After the enlarged meeting of the Standing Committee of the provincial party committee concluded, the Fuzhou City party committee and the city government transferred a large number of cadres to conduct investigations and study the question of opening to the outside world and economic structural reform. Jia Qinglin, deputy secretary of the provincial party committee, and Cai Ninglin, vice governor of the provincial government, led an investigative group to study Fuzhou City. Chen Guangyi also joined in the investigation of some topics. The discussion meeting on investigation and study on 18 August reported the first topic: Studies of Fuzhou City's Enterprises Invested in By Foreign Firms. Chen Guangyi, Jia Qinglin, Cai Ninglin, Yuan Qitong and responsible persons of the relevant provincial and city departments went to work on the spot to study solutions to the questions currently existing in these enterprises and made important suggestions on how to conduct investigations and study well at present.

At the discussion meeting, Chen Guangyi pointed out: We investigate to solve questions, not for the sake of investigation. Specifically speaking, we want to quicken the pace of opening to the outside world and economic structural reform and accelerate economic development through investigation. Here I have an important idea to clarify: We must not ask the state for new policies or subsidies. Instead, we should be good at implementing the Central Authorities' special policies and flexible measures and promote opening to the outside world and economic structural reform by relying on our own efforts and in an active and creative way. Therefore, we must fully

understand the current situation and adopt the correct approach. We must not only understand the principle of guidance but also work out the measures to solve these questions.

At the end of the discussion meeting, Chen Guangyi emphatically noted: While we are conducting investigation and study on opening to the outside world and promoting economic structural reform, the question of political structural reform has emerged. We can, through conducting investigation and study, judge whether the guiding ideology and principle for work in all departments are correct and whether their services, initiatives and creativity are good or not, wherein we can discover questions and able men and lay a good foundation for the forthcoming political structural reform.

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ECONOMIC MANAGEMENT

HU PING ON IMPROVING MANAGEMENT IN FUJIAN

OW250010 Fuzhou FUJIAN RIBAO in Chinese 15 Sep 86 p 1

[By Yao Yeyuan]

[Text] "Fujian must face the world. It must make a breakthrough in the field of management in order to become a pacesetter in developing the four modernizations program." Governor of Fujian Hu Ping made this remark at the "Forum for Improving Management Throughout Society" held on 11 September at Fujian's Center for Economic Studies.

How can we improve our management throughout society? This has always been the question in the minds of the leadership in the province. Acting on instructions from Governor Hu Ping, the provincial center for economic studies had prepared for over a month and invited 46 factory directors and managers, heads of various government departments concerned, and experts, professors, and theoreticians from various research institutions and colleges to attend a forum in Fuzhou to study the special topic from 9 to 11 September. At the forum, Governor Hu Ping raised two questions: One was the question of able people, while the other was that of management. He said: As far as the commodity economy is concerned, we lag behind capitalist countries, not in terms of capital or natural resources, still less in terms of marketing. We lag behind in terms of competent people. The number of available competent people is closely connected with management.

Comrade Hu Ping emphatically pointed out: In order to modernize our management, we must have a modern concept of management. We must not cling only to Marxist-Leninist conclusions. We must change our concepts. We should absorb new ideas, assimilate good experiences from abroad, and do away with, or change, outmoded and traditional concepts. He suggested that people in the province read books and carry out investigations and study. All this is conducive to improving management, he added.

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## ECONOMIC MANAGEMENT

### LOWER DEFICITS, HIGHER PROFITS SEEN AS PRIORITY TASKS

HK300423 Chengdu SICHUAN RIBAO in Chinese 16 Sep 86 p 1

[Commentator's Article: "It Is a Top Priority Task to Reduce Losses and Increase Profits"]

[Text] At present, there is an acute problem in our province's financial and economic work: Economic results of our state-operated industrial enterprises are far from ideal, their production costs have increased, their profits have dropped, and circulation of funds is impeded because of unmarketable products kept in stock. In particular, the number of enterprises which have suffered losses, and the amount of losses have increased by a big margin. The increase is tending to continue month by month. The losses suffered by enterprises not only endanger their survival, but also adversely affect our province's balance between income and expenditure for the whole year, sustained and stable development of our economy, and the smooth progress of our economic reform. Therefore, this problem merits the close attention of leading departments at all levels and in all enterprises. They should promptly adopt measures to grasp the problem firmly and effectively.

The key to success in making up deficits and increasing profits lies, first, in the efforts exerted by enterprises to inspire their spirit, and to overcome their negative ideas of fearing difficulties, "sitting still to wait for losses," "placing hope on years to come," and so on. They should rely on themselves, firmly grasp administration and management, and make use of good management to derive benefits. They should persist in reform with emphasis on the key links of livening up the enterprises, and giving them more vigor. They should persist in implementing a series of policies formulated by the State Council and provincial government aimed at expanding the decision-making power of enterprises, perfect and systematize various measures for reform, establish and improve various economic responsibility systems based on contracts, and further arouse the enthusiasm of enterprises and workers. They should mobilize the masses to be involved in suggesting rationalization proposals in order to increase production, practice economy, increase income, decrease expenditure, improve product quality, readjust product mix, enhance the production of marketable products, [words indistinct], and actively organize production and promote sales. Enterprises should do their best to minimize their



deficits and strive to make profits. Apart from urging various enterprises which suffer losses to rely on their efforts to improve their situation, the relevant localities and departments should adopt effective policies and measures to help them reduce losses. For example, they should encourage enterprises concerned to implement a responsibility system, telling them that they will not get any allowances if their deficits exceed a certain limit. They will get some benefits if they succeed in reducing their losses. If they can succeed in reducing losses and increasing profits in the same year as originally planned, they will still get their due allowances and retain all the profits. Some enterprises suffer losses although they manufacture products badly needed by the market. If this is because of their backward equipment and facilities, they are allowed to carry out technical reform in light of their own actual financial conditions with the examination and approval of the financial and economic departments and the economic commission. Their technical reform should be characterized by faster and more economic results. They are allowed to get their allowance in advance, or borrow money to carry out their technical reform aimed at reducing losses. With regard to those enterprises which suffer heavy losses for a long time, and whose production value is not sufficient to repay their debts because of high production costs and poor-quality products sold at high price, they should adopt the measures of shutting down, suspension, amalgamation, switching of production and joint operations. As for those small enterprises which suffer from losses in successive years, they should employ the methods of "being owned by the state, being run by the collectives, paying tax according to regulations, and assuming sole responsibility for profits or losses." With regard to industrial enterprises run by some counties and districts, they may greatly expand their lateral economic links with other advanced and key enterprises with "emphasis" on excellent-quality and famous-brand products, and promote their specialized cooperation. The counties and districts concerned should give them necessary support in terms of funds according to policy. In a word, we should both put pressure on and give vitality to enterprises which suffer losses so that they can tap their potentials, and make up deficits and increase profits as early as possible.

As long as various leading departments ideologically attach importance to the work of making up deficits and increasing profits, and persist in implementing an effective factory director responsibility system; as long as main responsible comrades do the work themselves to make an analysis of the enterprises concerned one by one and provide them with guidance in light of different classifications; as long as enterprises which suffer from losses treat the work of making up deficits and increasing profits as their top priority task and grasp it resolutely, and as long as we carry out the work of making up deficits and increasing profits according to quotas set in the plan, and establish relevant responsibility systems, we believe that we will certainly achieve results in our endeavor.

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ECONOMIC MANAGEMENT

SICHUAN URGES MAKING UP DEFICITS, INCREASING SURPLUS

HK300421 Chengdu SICHUAN RIBAO in Chinese 16 Sep 86 p 1

[Report: "Provincial Government Proposes Efficient Measures for Making Up Deficits and Increasing Surpluses"]

[Text] The provincial government has decided to adopt methods such as affixing the responsibility, assigning task, pursuing a system of rewards and penalties, and so on to rapidly change the situation in the increase of losses and decrease of profits in our province's industrial enterprises this year.

Since the 2nd quarter of this year, industrial production in our province has gradually increased. However, losses were incurred in nearly 1/4 of the enterprises throughout the province, and total losses went up by about 80 percent over the same period last year. Under such conditions, the provincial government held a work meeting on making up deficits and increasing surpluses on 4 to 6 September to discuss and approve the "Circular on Conscientiously Grasping the Work of Making Up Deficits and Increasing Surpluses in Industrial Enterprises." Apart from implementing relevant documents issued by the Financial Ministry and the State Economic Commission, our province has the following eight points to add: 1) The number one man responsible for administration in various regions and departments should take charge of the work of making up deficits and increasing surpluses. In enterprises, factory directors (managers) should be responsible for this. If the enterprises concerned fail to fulfill the task assigned by the state of making up deficits within a certain time limit because of poor administration and management, leaders at all levels and factory directors are to be held accountable. 2) Leading departments should follow a responsibility system to help their subordinate enterprises make up deficits. If the amount of losses exceeds the limits permitted by the state plan, the state will not subsidize the enterprises concerned. Those enterprises which have done well in accomplishing the task of making up deficits and increasing surpluses will be rewarded at the end of the year. 3) Responsible persons and leading departments should sign contracts on making up deficits and increasing surpluses. Factories which fail to make up deficits, or whose deficits still exceed the limits permitted by the state plan are no longer allowed to issue bonuses, or take part in wage reform. The wages of the main responsible persons of

the enterprises concerned, or those who signed the contracts will be demoted by one grade. 4) Those enterprises which suffer losses over a long period, or are unable to repay their debts with their production output should adopt the measures of shutting down, suspension, amalgamation, switching of production and joint operations. 5) With regard to those enterprises which manufacture unmarketable products and consume excessive raw and processed materials, or whose annual losses exceed the total amount of wages, they should stop production in order to carry out readjustment within a certain period. 6) With regard to those enterprises which suffer losses because of manufacturing products urgently needed by market, but are able to make up deficits and earn profits through technical reform and systematizing their technical equipment and facilities, their deficits are tolerable for another 1 to 3 years with the examination and approval of the financial departments and economic commissions. 7) As for those enterprises which have suffered losses, or stopped production, banks may provide them with loans so that they can manufacture other products and develop tertiary industry on condition that they can derive prompt benefits and that the leading departments are willing to give guarantees. 8) To reduce their losses, enterprises should make use of their surplus labor to develop tertiary industry, and carry out self-relief activities through production. If they have difficulties in paying tax, they may apply for reduction or exemption of tax according to regulations. With the approval of the tax departments, their tax can be reduced or they can be exempted from tax in light of their actual conditions.

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FINANCE AND BANKING

CAUTION URGED IN ABOLITION OF FOREIGN EXCHANGE CERTIFICATES

Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese No 23, 16 Jun 86 pp 24-25

[Article by Zhu Zhuoxin [6175 0587 2450]: "Some Thoughts on the Abolition of Foreign Exchange Certificates"]

[Text] The abolition of foreign exchange certificates has recently been much discussed by members of the public, Chinese and foreigners alike. It has also been the subject of many an editorial in the press, some positive, some negative. As publicity surrounding it intensifies, let me say a few words about how I see it.

Vice Premier Yao Yilin [1202 0181 2651] has made it clear in a speech that foreign exchange certificates must be abolished. What remains to be decided is when: It takes a good deal of time to prepare for abolition. Vice Premier Yao Yilin's speech clarifies three points. First, it confirms that the government is determined to abolish foreign exchange certificates. That is now state policy. Second, although no official timetable has been set, it will probably take place in the near future now that the formal announcement has been made. Third, the abolition of foreign exchange certificates is a complex issue that must be preceded by a lengthy period of preparations. But the abolition debate has gone on for several years. What they have to work out is essentially principles and policies. Once the broad framework is in place, things can get under way immediately.

Why Abolish Foreign Exchange Certificates

Why should foreign exchange certificates be abolished? There are many theories, but I think it has mainly to do with domestic reasons. China first issued such certificates in April 1980 to meet the needs of a developing tourist industry and burgeoning economic and cultural exchange with the world. To cater to the needs of a rising influx of overseas Chinese and Hong Kong and Macao compatriots who returned to China on sightseeing or business trips or to visit friends and relatives, hotels, shops, and other service establishments sprang up all over the nation like mushrooms. The circulation of foreign currencies is prohibited inside China, while the renminbi is not a freely convertible currency. Under these circumstances, what was needed was a substitute that would make things easy for people when they shopped and paid for all kinds of expenses, on the one hand, and could be differentiated from

the renminbi used by local residents, on the other. This substitute finally took the form of foreign exchange certificates. At the time, it was clear why foreign exchange certificates were issued, and it must be said that the certificates served their purpose. But the problem was that there was no corresponding control mechanism and things were allowed to get out of hand. The certificate was expected to replace foreign currencies in domestic circulation, safeguard the status of the renminbi in the domestic market and preserve the integrity of the Chinese currency. Such expectations were not fulfilled. The certificate was not originally envisioned as a currency, but a means of payment. But in the wake of the open door policy, there was a proliferation of enterprises financed by the "three capital sources" (foreign capital, overseas Chinese capital, and Hong Kong and Macao capital), as well as guest houses, hotels, and other places of entertainment built with foreign exchange and funds raised inside and outside China. They were soon joined by shops and other concerns born in response to the needs of the time that provided tourists with services in return for foreign exchange certificates. In the process the circulation of the certificate widened far beyond the scope originally planned. Psychologically people began to see the foreign exchange certificate as a currency, just like the renminbi, and used it as such. Units that accepted foreign exchange certificates were also allowed to deposit them in banks. In the end the original intent that foreign exchange certificates not be used as a currency was lost sight of, and they became another currency, existing side by side with the renminbi. In the Shenzhen Special Economic Zone, in particular, three currencies circulate simultaneously: The most sought-after is the Hong Kong dollar, followed by the foreign exchange certificate. The renminbi, on the other hand, has depreciated in value. The foreign exchange certificate has failed in its mission to replace foreign currencies in the domestic market and seriously undermined the prestige of the renminbi. It must be abolished in order to protect the prestige of the Chinese currency and also to satisfy certain foreign political needs. For all these reasons, its abolition is imperative.

As a result of their widespread circulation and lack of firm control, the foreign exchange certificate and the Hong Kong currency have been changing hands illicitly and black market speculation became rampant. In Guangdong and Fujian, especially the special economic zones, black-market activities have reached epidemic proportions and gotten out of control, disrupting the financial market. In the past, overseas Chinese remittances once reached as much as \$600 to \$700 million annually. Current estimates put their value at less than \$200 million. The decline too is related to the circulation of foreign exchange certificates. Instead of remittances, more and more overseas Chinese are sending home commodities and foreign currencies. This is because stores that cater to overseas Chinese are severely under-stocked at a time when their relatives at home are enjoying a higher living standard and demand foreign products and upscale consumer goods. Since they cannot buy what they want locally, it seems better to bring the goods into the country or take home hard cash in a foreign currency which can be exchanged for foreign exchange certificates. Armed with the certificates, they can then shop in friendship stores and other units. As a result, overseas Chinese remittances have been replaced by commodity imports, foreign currency, and foreign exchange certificates. To check the decline in overseas remittances, therefore, also requires the abolition of foreign exchange certificates.

## When The Foreign Exchange Certificate Should Be Abolished

The timing of the abolition of foreign exchange certificates is of great interest to people in all quarters, both at home and abroad. As early as 1983, the question of abolition already drew sharp reactions. Reportedly even the leaders did not see eye to eye on it. Abolition involves many real issues that must be resolved, and not everybody agrees on what should be done. This explains why it took more than 3 years of deliberations before the government finally went ahead to formally announce that it would be abolished. The announcement suggests that many practical problems have been ironed out, that a consensus has emerged from a welter of conflicting opinions, that the time has come for abolition, and that preparations for it were proceeding well. Once the government gives the nod, it will be pulled off the market. As for the actual time, some say July. My analysis suggests that it would occur by the third quarter at the latest.

## What Should Be Done After Abolition

Much indeed has to be done to prepare for the abolition and solve many real problems. In my opinion, the most crucial part is what the government will do after it abolishes the certificate. For instance, how are guest houses and hotels built with foreign capital and enterprises that redeem foreign exchange certificates going to repay their foreign-currency loans and investments? Some stores sell imported goods. How will they recoup foreign currency and balance their foreign exchange? All these questions must be worked out.

What is to be done? This question is of special concern to everybody, including people overseas who have invested in China. I believe we should allow enterprises financed by the "three capital sources," state-run guest houses, hotels, shops, and places of entertainment, as well as airline, railroad, transportation, and telecommunications agencies that used to redeem the certificate to accept foreign currency in accordance with the marked prices in the renminbi. The foreign exchange thus earned can be used to repay loans and balance foreign exchange. This too will create difficulties for customers because a foreign currency receipt can be used everywhere and surplus renminbi can be exchanged for foreign currency at a bank. This approach will not work. The only solution is to allow the hotels, shops, and so on to price in the renminbi and indirectly accept foreign currency. Needless to say, all units must list prices in the Chinese currency only. They must be strictly prohibited from calculating prices in any other currency. Only thus can we implement the policy of one nation, one currency. This system is what people call "spend now, convert now" for short.

With the abolition of the foreign exchange certificate, people worry that they must stop using it at once and exchange it for renminbi, one for one. There is also the possibility that they have lost the foreign currency receipt, in which case they will not be able to convert the certificate into a foreign currency. How to ease such worries is another important point to consider when the foreign exchange certificate is abolished. I think there should be a post-abolition transitional period when the certificate can still be used. Say we give people a month to get rid of the certificates they have stashed

away. Inevitably the certificates will change hands during this period in accordance with the supply-demand situation and there will be speculation. If a person has more foreign exchange certificates than he can dispose of within the transitional period, he should be allowed to exchange them for renminbi or a foreign currency. We cannot let him suffer losses for no good reason. People have been allowed to take foreign exchange certificates out of the country and some certificates are in the hands of overseas Chinese and Hong Kong and Macao compatriots. We must not require these people to make a trip to China just because of the abolition. Instead, arrangements may be made whereby a local branch of the Bank of China or another bank acting as an agent for the Bank of China redeems the foreign exchange certificate. Also we may allow overseas holders of the certificates to mail them to their relatives in China for redemption. Just as in other nations when they abolish a currency or securities, there must be a cutoff point: We cannot continue accepting foreign exchange certificates forever, although the transitional period should be of a decent duration. Extensive publicity is indispensable if abolition is to proceed smoothly. Otherwise, we may give people the unfavorable impression that China's policies are ever changing.

Since abolition is inevitable, we hope that the agencies concerned in China and their leaders move cautiously and take everybody into account, while avoiding confusion and misunderstanding.

12581

CSO: 4006/1175

## SMALL-SCALE ENTERPRISES

### PROBLEMS, SUGGESTED SOLUTIONS FOR TOWN ENTERPRISES

Xian SHAANXI RIBAO in Chinese 4 May 86 p 2

[By reporter Fu Lingang [0265 2651 1511]: "Problems In Township and Town Enterprises That Require Immediate Help"]

[Text] The township and town enterprises, operated either by collectives or by individuals, are presently a gratifying picture of flourishing development. However, it has to be admitted that this is a new development that we now see peasants running enterprises. Those that had been started early have gained certain experiences and learned certain lessons, and are, therefore, run more efficiently. Those that started late are beset with a variety of problems and urgently need help to improve their operations. An investigation of the conditions of some township and town enterprises in Gaoling County has revealed several problems that would require attention and solution:

The first problem: Many township and town enterprises are short of capital and as a result suffer from a lack of working funds, while newly started enterprises are thereby prevented from building up their production capacity, and old enterprises work by fits and starts. The Jinghe Steel Rolling Mill in Gaoling County needs 1.8 million yuan working capital, but could raise only 800,000 yuan, while they had 1.3 million tons of reinforcing bars in stock, which were difficult to convert into working capital because they were only of one standard, and the mill intended to sell them only at free market prices. The Weibei Glassworks began trial runs in October last year, but products kept stocking up, so that there was even no way to pay salaries and wages. Later, they found a way out with the help of higher authority by selling large quantities at a low profit margin. By selling a soda water bottle at only 0.19 yuan, they quickly captured a market and had sold 1.2 million bottles by the end of March. Although they got 20,000 to 30,000 yuan less than other glassworks, they had in the long run accelerated cash flow, less interest to pay on their bank loan, and thus managed to revive the enterprise.

The second problem: township and town enterprises devote too little time and energy to the improvement of product quality. Looking for the main reason for the low quality of some products from township and town enterprises, we found mainly that their equipment is too simple and crude; some have open air operations by hand. They are unwilling to spend capital on training qualified technical personnel. If the township and town enterprises are to be helped in



their development, it is necessary to recognize the need to train qualified personnel, and, furthermore, to spend time and energy on technological innovations and the renovation of equipment, so as to gradually effect the transition to mechanized and automated production.

The third problem: Disregard for market information. All that the village and township enterprises know is to engross themselves in production, without sufficient information on markets. The products that they manufacture will, therefore, either stock up in their warehouses, or, if they have a temporary market, show not much of a prospect in the long run.

The fourth problem: township and town enterprises are apt right at the start to enlarge their base and spread out, and will seldom pay attention to establish a sound system of rules and regulations. Some of them still remain at the level of the original production brigades, with imperfect financial and accounting systems, which cannot even tell them whether the enterprise makes or loses money, what the monthly taxes are, and how much interest has to be paid to the bank every year. If run in this way, how can an enterprise be efficient?

Most of the cadres of the township and town enterprises are the original cadres of the production brigades. These comrades lack experience in managing enterprises and should be helped, with enthusiasm and sincerity, to improve the quality of their business management. This applies particularly to the renovation of technical equipment, the improvement of product quality, improvement of information and consulting services, the establishing of sound and necessary accounting systems, and the initiation of a personal responsibility system.

9808

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## SMALL-SCALE ENTERPRISES

### VARIOUS WAGE SYSTEMS ENUMERATED, COMPARED

Beijing NONCUN CAIWU KUAIJI [RURAL FINANCIAL ACCOUNTING] in Chinese No 7, 6  
Jul 86 pp 26-28

[Article by Bao Weihuo [0545 4850 0735]: "Variety of Wage Systems for Diverse Small-scale Enterprises"]

[Text] The conscientiousness implementation of the policy of distribution according to work is an important way whereby township and town enterprises can raise labor productivity, increase production, and promote employees' material welfare. At present, township and town enterprises basically follow one of these wage systems:

(1) Piece rate wage system. Under this system, a worker's wage is calculated in accordance with the number of products he makes which meet the required standards and with the unit rate of each product. The system is subdivided into limited piece rate wage system, mixed piece rate wage system and graduated piece rate wage system: 1) under the unlimited piece rate wage system, a worker will be paid for all his output, whether it falls within the quota or exceeds it, based on the unit rate of the product concerned; 2) under the mixed piece rate wage system, the worker will be compensated for fulfilling his quota in accordance with the amount of time he spends on it. For his output above the quota, he will be compensated in accordance with the unit rate of output; and 3) graduated piece rate wage system. A worker will be compensated for fulfilling his quota in accordance with a fixed unit rate for each unit of output. In addition, he will be compensated for output above his quota in accordance with an ascending piece rate scale. For instance, an enterprise may stipulate that each worker makes 10 vacuum bottles every day, for which he will be paid 2 yuan. This forms the standard basic wage so that if a person makes one bottle, he will earn 0.2 yuan. If his output exceeds the quota by 10 percent, he will be paid 0.3 yuan for each bottle he produces above the quota. If his output exceeds 20 percent, he will be paid 0.4 yuan for each bottle, so on and so forth.

(2) Time wage system. A worker is paid for the amount of time he works. If the job requires a high degree of technical expertise or is physically demanding, the wage scale will be high, otherwise, it will be low. The time

wage system is subdivided into the hourly wage system, daily wage system, and monthly wage system. The time wage system is usually used in conjunction with an incentive system.

(3) Contracting income (wage) system. This wage system is used by enterprises that adopt individual contracting. The contractor pays taxes in accordance with the contract, defrays other expenses, and pays the party that commissions the project all necessary expenses and profits. The remainder is divided equitably among the workers in accordance with the amount of their labor, responsibilities, and contributions.

(4) Profit-sharing system. A worker is paid a basic wage as compensation for fulfilling his quota. For his output beyond the quota, he will be paid a fixed percentage of the enterprise's profits or earnings. In some enterprises, profits are distributed in accordance with the results of workers' labor, their attitudes toward work, and their level of technical expertise.

(5) Floating wage system. Under this system, an enterprise takes the existing standard wage (or plus bonus) as a basis and sets aside a certain percentage to be determined in accordance with the workers' work attitude, the magnitude of their contributions, and the balance sheets of the enterprise. A floating wage system can be applied in part or whole.

Township and town enterprises nationwide are a mixed bag: Their ownership systems are highly diverse, their profitability varies tremendously, and their tools of production range from the very advanced to the very backward. Every enterprise must choose a wage system in light of its actual circumstances in order to adapt itself to local conditions. Its point of departure is to find a system that helps mobilize worker initiative in production, improve labor productivity, and facilitate production development. Within a single enterprise, there may be one major wage system used in combination with and supplemented by others.

The advantage of the piece rate wage system is that by directly relating the output of a worker to his wage, it corrects the egalitarian bias in the calculation of wages and the practice of "eating from the big rice pot." It unleashes worker initiative and improves labor efficiency. This wage system is more acceptable to workers because its quantitative and qualitative demands are more concrete and the system is relatively simple to administer. Its disadvantage is that in their eagerness to exceed their quotas and make more money, some workers pursue volume and ignore quality. Hence there is a need to strengthen quality control and beef up the inspection system.

The advantage of the time wage system is that it guarantees a basic wage for workers. Under this system, all that has to be done is to determine a wage scale in accordance with workers' technical standard and physical strength. This system compensates workers based on their potential labor. In fact, however, a person's potential labor often does not equal his actual labor. In other words, under a time wage system, some people may do or contribute less than they are capable of. Herein lies the weakness of the system. In assessing bonuses, employees are so careful to spare one another's

sensibilities that the more diligent are not compensated accordingly, a condition not conducive to further kindling their enthusiasm.

Under the contracting income (wage) system, a worker's wage is calculated in accordance with net income. When the final accounts are settled at year end (or at the end of the contracting period), the greater the enterprise's net earnings, the higher the workers' wages. Conversely, the smaller the enterprise's net earnings, the lower the workers' wages. This way, labor, output, and compensation are organically integrated and the principle of "distribution according to work" is more effectively realized. Under this system, cadres and workers all concern themselves with production, the trend of investment, and economic benefits. It also helps overcome haphazardness in the allocation of labor and capital so that all employees work hard to increase earnings and economize to cut costs. This is what makes the contracting system so dynamic.

The profit sharing system is more suitable for such industries as commerce, services, restaurants, and repair. A worker is paid a basic wage each month after fulfilling his quota. When the enterprise makes a profit, he partakes of it. This system encourages workers to give better services to customers.

The floating wage system is for strong enterprises. It works best in an enterprise where sound labor quota management and evaluation systems and a full production schedule exist and where production, supply, and marketing are relatively normal. Otherwise, it will be difficult to enforce and cannot be handled properly.

Whichever wage system they adopt, township and town enterprises must conscientiously educate their workers in socialism and collectivism. Practice has proved that the party's policy of distribution according to work has mobilized the initiative of the masses of workers and exercised a mighty force. As long as we uphold the principle of "distribution according to work" and overcome egalitarianism, we can successfully encourage the vast numbers of workers to improve technology and make further contributions to upgrade managerial standards and economic results.

12581

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DOMESTIC TRADE

SICHUAN'S PROGRESS IN LATERAL ECONOMIC TIES

Kunming YUNNAN RIBAO in Chinese 21 May 86 p 2

[By SICHUAN RIBAO correspondent Cao Guoxi [2580 0948 3886]: "Progress in Lateral Economic Ties Between Yunnan Province and Fraternal Provinces and Regions--Emphasized by the Leadership, Energetically Pursued by the Departments"]

[Text] Since the Second Five-Party Economic Coordinating Conference of the Provinces and Regions of Sichuan, Yunnan, Guizhou, Guangxi, and Chongqing in April last year, the Sichuan party committees and government agencies at all levels have vigorously propagated the spirit of the conference and worked hard to initiate cooperation by means of economic ties in various directions. Many new achievements were scored during last year's work. Apart from participating in such special groups as for the comprehensive investigation of China's territorial resources and for the study of developmental strategy, and apart from efforts to solve the major economic problems of the five parties in the four provinces and regions, Sichuan signed up for somewhat over 700 projects of economic and technical cooperation with various quarters, thus raising the socioeconomic beneficial accomplishments and further intensifying the mutual ties of friendly cooperation.

Sichuan Province is most enthusiastic in developing economic and technical cooperation between the five -member provinces and regions. It printed and distributed the proceedings of the Second Economic Coordinating Conference throughout the province and propagated the significance of the joint cooperation. To intensify mutual relations, increase understanding, and broaden joint efforts, leading comrades of the Sichuan Provincial Government last year visited the three provinces of Yunnan, Guizhou, and Guangxi. They were successful to a rate of around 50 percent in pushing implementation of projects signed for at or following the said second coordinating conference. As a result of 1 year's hard work, the scale, scope, and substance of cooperation between the four provinces and regions and various other parties was further broadened, new patterns have been created and beneficial results have become more conspicuous.

Cooperation with the trades and industries of various quarters has been strengthened, and activities for mutually coordinated cooperation between trades and industries has been developed on an extensive scale. During the

year, more than 16 items of cooperative activities between the trades and industries of the five parties in the four provinces and regions was developed within the borders of Sichuan Province itself. Cooperation between the same trades and industries, since there is good mutual understanding, resulted in projects that were geared to actual circumstances, that required little expenditure, and showed early results, much acclaimed as "short, worth their price, and quick." For instance, the Neijiang, Ziyang, and Dayi sugar refineries of Sichuan gave assistance to the Yongkang sugar refinery in Yongde County and to several other sugar refineries in Yunnan, helping them raise the ratio of sugar yield, utilize bagasse, and produce alcohol from molasses, thus solving some of their long-standing technical difficulties and enabling them within the year to turn deficit into profitable operations. Yunnan's Yuxi cigarette factory gave technical assistance to Sichuan's Xichang cigarette factory to improve their technique of blending and curing tobacco, resulting in a much improved quality of their cigarettes. Last June the head of the engineering department of the Sichuan Provincial Government led a group on a visit to Guangxi to discuss with the Guangxi departments in charge items of cooperation in the engineering industry. They also visited Beihai City in Guangxi on their tour of inspection, and on this one trip alone signed six agreements for cooperative projects.

Economic networks develop faster if built up around large cities as centers; we must gradually shift from piecemeal individual items of cooperation to long-term, stable, and comprehensive cooperation. After last year's second coordinating conference, the five cities of Chengdu, Kunming, Guiyang, Nanning, and Chongqing held a meeting to study and give effect to their role as key cities and successfully established lateral economic ties. They not only strengthened the cooperation between these five key cities, but also promoted the establishment and development of regional economies backed by the cities. Last year the city of Chengdu and relevant departments of Yunnan had several discussions with some prefectures, Zhou, and cities; they mutually dispatched personnel for visits of inspection and succeeded in concluding agreements by the hundreds. This year again, agreements on many new projects were reached, and cooperation and exchanges expanded from economic, technical, and material cooperation to cooperation in such fields as S & T, cultural affairs, training of personnel, theoretical studies, and information services.

Cooperative activities with the fraternal provincial neighbors of Yunnan and Guizhou were stepped up and extended. Within this year, a conference on cooperation between the neighboring prefectures of Sichuan and Yunnan was held at Yibin; a conference on economic cooperation between 16 border counties and municipalities of the four provinces of Sichuan, Hubei, Hunan, and Guizhou was held at Jishou City in Hunan; a conference was held at Wuchuan in Guizhou Province for economic cooperation among the 11 border counties in the two provinces of Sichuan and Guizhou; a conference was held at Zhenxiung in Yunnan Province for cooperation among 9 counties in the border areas of the three provinces of Yunnan, Guizhou, and Sichuan. All these conferences and activities brought about intensified economic intercourse and relations among the neighboring prefectures, and the joint undertaking of a series of projects for the development of the natural resources of the border areas, thus contributing to an economic upswing in these areas. They also strengthened the unity among the people on both sides of the provincial borders

and strengthened friendly neighborly relations and unity between nationalities. At the conference held last November at Yibin in Sichuan, participated in by 11 prefectures, Zhou, and cities along the borders of Sichuan and Yunnan, agreements for over 200 projects were signed, involving the total amount of 52 million yuan. The prefectures of Yibin in Sichuan and Zhaotong in Yunnan, furthermore, agreed on the joint production of beverages, the joint business operation of general merchandise, the joint operation of clothes, shoes, and hat stores, the joint operation of hog bristle processing plants etc., to go forward hand in hand in joint endeavor.

9808

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FOREIGN TRADE AND INVESTMENT

TREATMENT AND LEGAL PROTECTION OF DIRECT FOREIGN INVESTMENT

Guangzhou GUANGDONG SHEHUI KEXUE [GUANGDONG SOCIAL SCIENCE] in Chinese No 1,  
Mar 86 pp 105-109

[Article by Zhang Jieli [1728 2639 2651]: "China's Treatment and Legal Protection of Direct Foreign Investments"]

[Text] By implementing, during the period of the Sixth 5-Year Plan, the policies of opening up toward the outside world and invigorating the domestic economy, as prescribed by the 3d Plenum of the 11th CPC Central Committee, China scored great achievements in the use of foreign capital and in importing advanced technologies. In efforts to enhance the use of foreign capital and the importation of advanced technologies, we have accomplished much in improving the investment climate.

As everyone knows, the investment climate comprises the political, the economic, and the legal environment. In the past 7 years, the CPC has been able to bring order out of chaos on a broad scale, has rectified "Leftist" aberrations, and shifted the entire focus of our work. The mentality of the whole party and the entire people has been unified and all strength has become concentrated on the task of socialist modernization. There is now unity throughout the nation, with an all-effective government and peace among the people, every effort being bent on developing the productive forces. During the period of the Sixth 5-Year Plan, China's total social output value, the total output value of industry and agriculture, and the national income, all developed at an annual growth rate of 10 percent, bestowing a new aspect of a continuous, steady, and coordinated development on the national economy and opening up a vista of benign consequences to follow. Rapid progress has been made in building up the infrastructure at all four special economic zones [SEZs] and opened-up coastal cities, which had been undertaken to improve the investment climate. All this demonstrates the constantly improving state of China's political and economic situation. Speaking of international investments, China's political and economic environment is of excellent standing the world. China has at the same time effected great improvements in its legal environment in the field of international investments. We understand that from 1979 to today, China promulgated more than 50 laws and regulations that have a bearing on foreign economic relations. Among these, 10 were promulgated by the NPC, and more than 40 were rules and regulations promulgated by the State Council. In addition, the various ministries of the



State Council promulgated more than 30 regulations. Guangdong, Fujian, and their SEZs issued 10 or so rules and regulations of a local character. In broad outline, the above-mentioned laws, rules and regulations contain provisions on mainly the following five aspects: (1) Provisions for the administration of the law governing Chinese-foreign joint venture enterprises and its enforcement regulations, the cooperative exploitation of offshore oil resources, the registration of joint ventures, labor, and foreign exchange. (2) Provisions concerning income tax and customs duty as applying to Chinese-foreign joint venture enterprises, foreign-financed enterprises, and individuals, and concerning the tax revenue of the SEZs and the 14 opened-up coastal port cities. (3) Provisions concerning intellectual property, such as, for instance, concerning the patent and trademark laws. (4) Provisions concerning laws and regulations governing economic contracts with foreign parties and contracts for the importation of technologies. (5) Provisions regulating affairs of the SEZs and those of a local nature. China has, furthermore, signed investment protection agreements with Sweden, Romania, the FRG, France, the Benelux Economic Union, Finland, Norway, Italy, and Thailand. China has concluded agreements with the United States, Great Britain, Japan, France, and the FRG on the prevention of double taxation of income and on tax evasion, and has joined the Paris Convention for the Protection of Industrial Property. China's legal environment for international investments is continuously improving, and one may say that investments in China are of least risk and show best prospects of success.

The following presents a few ideas merely on the treatment and legal protection of direct foreign investments in China.

#### Treatment Enjoyed by Foreign Investments

The treatment of investments, comprising direct economic benefits as well as other related conditions, amounts, in the final analysis, to an assessment of profits, which is the question of greatest concern for the foreign investor. In China, in my opinion, the treatment enjoyed by a foreign investor is very favorable, because he not only enjoys the full authority in the management of his business, but also favorable treatment with regard to taxation and in other respects.

As to business management, Chinese-foreign joint ventures enjoy the full right of self-determination. In joint venture enterprises, production, business, and planning operations are approved and executed by the board of directors, to be reported to the competent departments for record. Within the framework of Chinese law, rules and regulations, and within the scope of the contract, articles of association, and other provisions of the joint venture, the joint venture enterprise is free to directly raise capital from foreign banks and to directly purchase materials, fuel, and components in the international market. Further specific legal provisions on the use of foreign exchange, on worker wages, and other aspects ensure the right of self-determination of the joint venture enterprises in their business operations. Chinese-foreign cooperative enterprises may either choose the form of a jointly-operated enterprise, or both sides may set up a joint management organ; the foreign party may participate in the management in its capacity as a partner in a Chinese enterprise, or only one side may be entrusted with the responsibility of

management, while the other party effects supervision. The foreign-financed enterprises enjoy full authority to manage their business, subject to the provisions of Chinese law. It means that all the above-mentioned enterprises enjoy the right of self-determination in the management of such matters as personnel, finances, materials and production, supplies, and marketing, and that the state will not allow anyone to interfere in or infringe upon these rights.

As to taxation, China observes toward foreign investments the principles of "lightening the burden, broadening favorable treatment, simplifying procedures." The income tax of Chinese-foreign joint venture enterprises, with the local added income tax at 10 percent of the income tax due, come both together to a rate of 33 percent. The income tax of foreign-financed enterprises is computed according to a progressive method on the taxable excess earnings. The tax rate is from 20 to 40 percent, with a further local income tax at 10 percent on the taxable earnings. Even more favorable tax rates are enjoyed by Chinese-foreign joint venture and foreign-financed enterprises in the SEZs, on Hainan, and in the 14 coastal port cities. Exemption from export customs duty and import consolidated industrial and commercial tax is granted to Chinese-foreign joint venture, cooperative, and foreign-financed enterprises with regard to equipment and building materials used for production and management and imported as investment, raw and semifinished materials, components, parts, and packing materials imported for the manufacture of export products, and means of transport and communications and office equipment for own use, as well as the household goods and means of transportation for foreign businessmen's own use. Products that are exported, except those under state restrictions, are exempted from export customs duty and the consolidated industrial and commercial tax linked with industrial production. All the above-mentioned various tax provisions are extremely favorable if we compare them with those either in the capitalist or in the developing countries.

As to the share of profits, when products are sold domestically and other respects, of the profits from whatever products are sold domestically and from other aspects, the net profits, after legally prescribed payments for income tax and deductions for reserve funds and funds for employee and worker bonuses and welfare have been effected from the gross profits, are distributed according to the proportion of capital registered for each party. In the case of cooperative management enterprises, profits are distributed according to the proportions agreed upon by the two parties, the Chinese and the foreign party. If the foreign party of a Chinese-foreign joint venture, cooperative management, and foreign-financed enterprise actually provides advanced techniques, production technologies and equipment, or if products are manufactured that are needed in China and could not in the immediate future be manufactured in China, or if products are manufactured that are available in China but not in sufficient quantity or not of advanced levels of quality and performance, certain quantities of such articles are permitted to be sold domestically. If, in the case of such articles being sold domestically, taxation should impose difficulties during the initial period of production, reduction in or exemption from consolidated industrial and commercial tax for a certain period of time may be applied for. For products approved for domestic sales, prices may be quoted and accounts settled in foreign exchange,

in order to safeguard the balance of foreign exchange receipts and payments of the manufacturer in question. Availability of supplies of materials that are subject to state planning is guaranteed to joint ventures for the fulfillment of their contracts, and articles for office use or daily necessities may be bought as needed. As to prices, those for the six raw materials of gold, silver, platinum, petroleum, coal, and timber, used directly in the manufacture of export goods, are to be the national market prices, to be paid in foreign currency or RMB. As to the prices for the purchase of coal as fuel and oil for vehicles needed for the manufacture of products to be marketed in China, as to prices for other materials, excepting the above-listed raw materials, as well as in the case of charges for the supply of water, electricity, heating, transportation, and services, the joint ventures enjoy the same treatment as state-run enterprises, to be charged at current rates and paid in RMB. Furthermore, land rental fees and real estate tax is also charged at the lowest possible rates. Procedures for foreign merchants to enter or leave the country, also for their residence or temporary stays in China, have also been simplified, etc.

Foreign investments in China enjoy very favorable treatment, but foreign businessmen have raised with China the question of "national treatment," while China in the investment protection treaties signed with various countries has agreed to grant only "most-favored-nation treatment," but never stipulated "national treatment." This question requires some elucidation.

"National treatment" refers to granting foreigners the same rights in civil affairs as provided in the country's own laws for its own nationals. It would mean that enterprises with foreign investments could enjoy the same treatment as the national enterprises of the host country. As a result, foreign individuals and enterprises would enjoy rights in civil affairs that are identical with those enjoyed by native individuals and enterprises. The most-favored-nation treatment means that the contracting countries mutually grant to each other's natural and legal persons the rights in civil affairs according to the criterion of rights in civil affairs granted to a specific most favored country. The most-favored-nation treatment, therefore, involves three countries, namely (a) the first country, called the grantor country; (b) the second country, the grantee or favored country; (c) the third country, the most favored country. The first country grants the most favored rights of the third country also to the second country; that is most-favored-nation treatment. The result of granting most-favored-nation treatment is to have all foreigners enjoy equal rights in civil affairs in the host country.

The reason why China is only granting most-favored-nation treatment and not national treatment to foreign businessmen is that China is a socialist country, with a planned commodity economy, i.e. with planned economy in primary position, supplemented by market regulation, and an economic policy of planned proportionate development. China's economy has ownership by the whole people as well as collective and individual ownership. The state follows different policies and has different legal provisions for enterprises belonging to these three different ownership systems. The Chinese-foreign joint venture, cooperative management, and foreign-financed enterprises are by character state-capitalist and capitalist. Their production and business operations rely mainly on market regulation; they enjoy full powers of self-

determination. Because the stated enterprises differ in character from China's state-run enterprises, also in the way production is set up in them, as well as in the manner of their business management, there are also certain differences in legal provisions for them. It is, therefore, practically not feasible--also legally improper--to treat the said three types of enterprises completely the same way as Chinese state-run enterprises, i.e. to grant them "national treatment." For instance, China's state-run enterprises arrange production according to the state plan. There are of course provisions of command nature as well as guidance nature in the plan, but even provisions of guidance nature are after all some kind of plan-provisions, and not identical with market regulation. Chinese-foreign joint venture, cooperative management, and foreign-financed enterprises organize their production according to the production and business scope determined in the contract. If they would be forced to carry out plan instructions, including plan provisions of command nature handed down by higher authority, this would, we are afraid, be much resented by foreign businessmen. This is why we do not apply "national treatment" to enterprises with foreign investments. This is starting out from the realities of the situation, with due consideration for the development of foreign economic relations and technical cooperation. On the other hand, no such problem exists in capitalist countries because they practice market regulation. In those countries it presents no problem, therefore, to grant each other "national treatment," except for certain trades, industries, or areas which are restricted for foreign investments.

In actual fact, on the strength of Chinese legal provisions and relevant policies, Chinese-foreign joint venture, cooperative management, and foreign-financed enterprises enjoy in many respects the same treatment as Chinese state-run enterprises. This is the case, for instance, in the right of civil litigation and, economically, in the sharing of profits according to the proportion of investment. Not only that, in certain respects they enjoy even more favorable treatment than China's state-run enterprises, for instance, in the area of taxation, which is higher for China's state-run enterprises, and in the marketing of products, where they enjoy more flexibility than China's state-run enterprises. There are, of course, in certain respects also differences in their treatment as compared to that of the state-run enterprises, for instance, in worker wages and in prices for particular raw and semiprocessed materials. This is determined by the current Chinese wage system and China's price structure and policy. Although China is granting only "most-favored-nation treatment" in investment protection agreements signed with other countries, this does not adversely affect the treatment enjoyed by foreign businessmen, according to the relevant provisions of the Chinese law, a treatment that is as favorable and sometimes even more favorable than that of Chinese enterprises. We are upholding here not merely formal, but factual principles, a point that must be fully understood by the foreign business community.

#### Protection of the Rights and Interests of Foreign Businessmen

The concern of foreign investors in China is not only for the treatment their investment will enjoy, but to a very large degree a concern whether their rights and interests are protected by Chinese law. The main concerns as to rights and interests enjoyed by investors are: whether they enjoy the right

of possession and of disposal of their assets; whether they enjoy the power to remit abroad their share of the profits and legitimate income; whether their trademarks, patents, brand names, product names, and other industrial properties enjoy protection; whether legal protection is extended to the remuneration earned, the social welfare to be enjoyed and the persons of leading personnel, specialists, staff and workers of foreign nationality; whether other economic and civil rights and interests arising from the contract will be legally protected. Our answer to these questions is in the affirmative. There is, first of all, the following clear and definite provision in the Chinese Constitution: "Their legitimate rights and interests are protected by the laws of the PRC." Then, there are the following provisions in the "Chinese-Foreign Joint Venture Law of the PRC," the "Guangdong Provincial Regulations on SEZs," and other rules and regulations, which all stipulate: "The Chinese Government protects according to law the profits to be distributed to foreign cooperative undertakings and all their other legitimate rights and interests derived from agreements, contracts, and statutes, properly approved by the Chinese Government," and "the SEZ encourages foreign citizens, overseas Chinese, compatriots from Hong Kong and Macao and their companies and enterprises to invest in new factories or to join with Chinese parties in establishing factories, setting up enterprises or in other undertakings, and, furthermore, protects according to law their assets, due profits and other legitimate rights and interests."

Although China's legislation has provided clear and definite provisions on the legitimate rights and interests of foreign businessmen, some of them still remain fearful that China may engage in nationalization and may confiscate their assets. This question is always brought up by whichever country is about to sign an agreement with China on the protection of investments. To cope with this question, China is always including a provision on nationalization and compensation, whenever about to sign an investment protection agreement. This should give foreign businessmen a greater sense of security with regard to their investments and dispel any misgivings in this respect.

A fierce conflict has existed for a long time between the developed and the developing countries on the question of nationalization and compensation. The developed countries contend that one could concede that sovereign states have the right to nationalize in the public interest, but there has to be an "adequate, effective, and prompt" compensation. The so-called "adequate" compensation should include not only the "market value" of the invested asset at the moment of dispossession, but also compensation for the "value of business prospects," i.e. the profits that could have been obtained by the invested asset in coming years. This is what they call the "standard" of international law in the question of compensation. In essence they oppose the expropriation or nationalization of foreign assets by developing countries. This stand by the developed countries has always met with the universal opposition from the developing countries. The developing countries argue that if "adequate" compensation is to be made a legal obligation in cases of nationalization, there is, first, no basis for this theory in international law because nationalization is the independent act of a state in the execution of its sovereignty; foreigners must not interfere and impose conditions. Second, adding the value of business prospects is even more irrational.

Because the foreign investor will have obtained profits during the long period of his business operations, it would be an unreasonable demand to raise the question of further full compensation. For this reason, the United Nations in December 1962 passed a "Resolution on the Perpetual Sovereignty over Natural Resources," and in December 1974, at the 29th Session of the UN General Assembly passed a "Charter of Economic Rights and Obligations of All Countries," of which Article 2 prescribes: "Every country has the right to nationalize, expropriate, or transfer the property rights of foreign assets. At the time of nationalization, expropriation, or transfer, an appropriate compensation shall be paid by the country which takes such measures," also "consideration must be given to its relevant laws and institutions and to all circumstances which that country will regard as relevant."

At the 29th UN General Assembly, China voted in favor of the "Charter of Economic Rights and Obligations of All Countries" and cannot contravene the many rational proposals of the said Charter, including the principle of "adequate compensation" in case of expropriation. When signing investment protection agreements with certain other countries, China must, therefore, base such agreements on the above-stated principles and mainly include the following items in such agreements:

First, China shall not expropriate or nationalize foreign investments. It is only under special circumstances, i.e. only in the public interest, based on the proper procedure of state law, and, moreover, without discrimination, can expropriation or nationalization of foreign assets be effected. For instance, the "Chinese-Swedish Investment Protection Agreement" stipulates: "Expropriation or nationalization, or any similar measures, can only be carried out in the public interest, according to appropriate legal procedure, and against the payment of a certain compensation."

Second, in case an expropriation of foreign assets should at one time be carried out, China has agreed to grant appropriate and reasonable compensation. The questions of time, amount, and manner of compensation shall be settled by both sides on the basis of equality and mutual benefit by, on the one hand, starting out from the existing economic and financial capabilities of the country that carries out the nationalization and by, on the other hand, referring to reasonable international precedents and giving equal consideration to the actual interests of the expropriated party. For instance, the agreement signed between China and the United State stipulates: Each of the contracting parties guarantees the safety of the investments of the other party. Should China at any time confiscate or nationalize, an agency of the U.S. Government, the Overseas Private Investment Corporation, shall first pay compensation, and then, representing the American business firm in question, request compensation from the Chinese Government. The "Chinese-Romanian Protocol of an Investment Protection Agreement," signed by China and Romania, stipulates: "The compensation shall be commensurate with the actual value on the day of the dispossession of the investment."

Third, payment received as compensation must be convertible and transferable. In this regard there is no problem with countries that have abolished exchange control and that have freely convertible currencies. However, some problems do exist in the case of countries with foreign exchange control. China is a



member of the International Monetary Fund and is not at all opposed to the principle of "free transferability," but the standpoint of any sovereign country that maintains foreign exchange control laws and regulations must be respected. China is a country that implements foreign exchange control. The Chinese provisional regulations on foreign exchange control stipulate that all foreign exchange expenditures of Chinese-foreign joint venture, cooperative management, and foreign-financed enterprises must be paid out of their foreign exchange accounts with the Bank of China or of any other bank approved by the Chinese foreign exchange control agencies. To safeguard the legitimate rights and interests of the foreign investor, the Chinese Government has in this respect adopted flexible measures and stipulated in its agreements that, regardless of whether the enterprise has a sufficiently large foreign exchange deposit, the Chinese Government will guarantee that amounts will be freely remittable in the following cases: (1) the capital of the investment; (2) the compensation for expropriations; (3) amounts derived from the transfer or final settlement of the investment; (4) loans guaranteed by the Bank of China; (6) [i.e. 5] RMB derived from Chinese Government-approved sales of products in the Chinese market and permitted to be converted to foreign currencies.

Fourth, in the question of settling disputes about investments, there is also conflict between the developed and the developing countries. The developing countries propose that all conflicts should be resolved by the law courts of the host country according to their own laws, but the investors from developed countries frequently distrust the laws of the developing countries and, therefore, propose that such disputes be resolved by international arbitration. Finally, in March 1965, under the auspices of the World Bank, a "Convention for the Settlement of Investment Disputes Between a State and the Citizens of Another State," was formulated and an "International Center for the Settlement of Investment Disputes" was set up, when it was decided to adopt the methods of international mediation and arbitration. At present, several countries when signing investment protection agreements agree to bring any future disputes between the investor and the host country about the investment to the International Center for the Settlement of Investment Disputes to be settled by arbitration. In our opinion, the majority of investment disputes involve the subterranean natural resources of the host country, and any expropriation and compensation is, therefore, also a question of the host country's sovereignty. There should be no interference here by any other country, and such matters should be administered and settled by the host country according to its own laws, as stipulated in the "Charter of Economic Rights and Obligations of All Countries," passed by the UN General Assembly. However, to dispel the misgivings of the investor, that he might not receive a reasonable compensation after expropriation of his investment, China has adopted a flexible method in this respect and accordingly stipulated in all its agreements that disputes about the amount of compensation for expropriation, if no settlement can be negotiated, may, at the discretion of the investor, either be referred to a law court with competency over the area where the expropriation had taken place, to conduct an investigation, or have an international arbitration tribunal set up to arbitrate the case. Adopting the above principles, on the one hand, upholds the principle of state sovereignty, and on the other hand gives consideration to the questions raised by the foreign investors, arriving at a well-principled and flexible result. This our method has already received the serious attention and acceptance by an ever increasing number of states.

FOREIGN TRADE AND INVESTMENT

FOREIGN CAPITAL FINANCES 6,664 ENTERPRISES

Shanghai WEN HUI BAO in Chinese 11 Jun 86 p 1

[Article by Ding Xilin [0002 2569 2651]: "Foreign Investments in China"]

[Text] Deputy Director Chu Baotai [0427 0202 3141] of the Foreign Investments Administration, the Ministry of Foreign Economic Relations and Trade, told reporters that the number of enterprises in China financed by foreign capital has been increasing each year. So far 6,664 such enterprises have come into existence. Of this, over 2,000 have opened for business, 90 percent of which are doing well.

Ever since the promulgation of the "Chinese-foreign Joint Ventures Law," foreign businessmen from over 30 countries and regions have invested in China. Most investments come from Hong Kong, which accounts for \$955 million, followed by US and Japan, with \$380 million and \$350 million, respectively. Britain, France, and the Federal Republic of Germany [FRG] occupy the fourth, fifth and sixth positions, respectively. Other countries like Italy, Australia, and Singapore have also each invested more than \$10 million in China.

Today, foreign and Hong Kong investors are gradually shifting the bulk of their investments from service industries to production projects. Among the largest Chinese-foreign joint ventures are the nuclear power station in Guangdong, built in cooperation with Hong Kong investors; the Pingshuo opencut coal mine, the Beijing electric station boiler, and the Beijing Jeep Plant, all financed with US capital; a joint venture with the FRG to build cars in Shanghai; and a Chinese-British project to manufacture plate glass, also in Shanghai. A marked change has occurred in the structure of Chinese-foreign joint ventures, with foreign investments now expanding into a dozen new areas like petroleum, chemicals, transportation, telecommunications, light industry, textiles, machinery, electronics, metallurgy, construction, building materials, pharmaceutical industry, agriculture, animal husbandry, and fishery.

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CSO: 4006/1172



## FOREIGN TRADE AND INVESTMENT

### EXPANSION OF MACHINERY PRODUCT EXPORTS

Beijing GUOJI SHANGBAO [INTERNATIONAL BUSINESS] in Chinese 2 Jun 86 p 1

[Article by Dai Xiaoxia [2071 2556 7209]: "Strategy To Expand Machinery Product Exports"]

[Text] During the Seventh 5-Year Plan, Chinese machinery exports will continue to be dominated by low- and medium-grade products. The thrust of its export drive will be directed at such products as machine tools, small and medium-sized electrical machinery, electric wires and cables, bearings, standard parts, chains, agricultural machinery, engineering machinery, and complete industrial plants. Efforts will also be made to win a larger share of the international market for the nation's more sophisticated, top-of-the-line machinery products. Meanwhile, China will also take pains to promote the export of technology-intensive products and large-scale plants in order to pave the way for a substantial expansion in electrical machinery exports in the Eighth 5-Year Plan. This was disclosed by He Guangyuan [0149 0342 6678], vice minister of machinery-building industry, in a speech to the ministry's working conference that opened on 29 May.

He Guangyuan said, "Judging from the present situation, we must first set up a task force to seriously analyze international market demand, identify the major producing areas of key exports, draw up a detailed implementation plan, concentrate our energies on set targets, coordinate our moves, and face the world as one. We must conquer the world market with one product after another. We must differentiate between current exports, products about to be exported, and products capable of being developed into exports, and adopt different policies for them."

The key to expanding electrical machinery exports depends on whether or not our products are exactly what the market wants and whether their quality is good. Accordingly, we must adjust the structure of export enterprises and make a tangible effort to establish a sound export commodity production system. Vice Minister He Guangyuan said that we must be determined to set aside a batch of major enterprises and put them at the export front line where they can fully exercise the leadership function of large and medium-sized enterprises in export development. It is projected that 60 to 70 export base enterprises will be built in the Seventh 5-Year Plan and 120 to 130 enterprises will be given additional autonomy in export matters. By 1990, the foreign exchange earnings of these enterprises are expected to show a sharp increase over 1985.

## FOREIGN TRADE AND INVESTMENT

### LATERAL ECONOMIC COOPERATION IN FOREIGN TRADE

Beijing GUOJI SHANGBAO in Chinese 12 Jun 86 p 1

[Text] Lateral economic cooperation is an important part of the restructuring of the Chinese economic system. If we achieve such cooperation, we stand to benefit economically and will give reform a shot in the arm.

In recent years, the foreign trade system has carried out a number of reforms, unleashed the initiative of localities, agencies, and enterprises in foreign trade, and spurred the development of foreign trade. But how to merge the strengths of the coastal ports --access to information, advanced technology and an abundance of customers--and those of the interior--plentiful resources and adequate sources of goods for export--in a more fruitful union remains an issue to be resolved. Lateral economic cooperation represents an important way of marrying the two sets of strengths for optimal benefits.

The development of lateral economic cooperation in foreign trade can take two major forms: one, cooperation between foreign trade enterprises, and, two, cooperation between foreign trade enterprises and production enterprises. Once foreign trade enterprises in coastal ports cooperate successfully with their provincial and municipal counterparts, we will be in a much stronger position to face the world as one, avoid overpricing when we sell to the interior, and prevent ourselves from underselling one another in our scramble for foreign customers. The result is that the strengths of both the coast and the interior will be fully exploited. When foreign trade enterprises cooperate with production enterprises and scientific research institutions, they can offset one another's weaknesses and improve mutual relations, which will bring about more productive enterprises, more popular products, improved product quality, prompt deliveries, and an enhanced ability to export and earn foreign exchange. Achieving the two forms of economic cooperation, therefore, has profound significance for improving economic benefits, expanding exports, and boosting foreign exchange earnings.

Lateral economic cooperation in foreign trade is a crucial part of the reform of the foreign trade system. We must proceed energetically but steadily in accordance with the principle of "consolidation, assimilation, supplementation, and improvement." In the course of cooperation, we must have due consideration for the existing situation. We must not revert to the old ways of full-fledged allocation and transfer and relapse into monopolism. How

well we succeed in lateral economic cooperation in foreign trade hinges on whether or not we adhere to the principles of equality, mutual benefit and co-development. Accordingly, it is of utmost importance that all parties be fair and reasonable when they handle any matters, sharing benefits, risks and credit equitably.

Lateral economic cooperation in foreign trade should assume a variety of shapes and forms, depending on the circumstances, and there must be no attempt to impose uniformity arbitrarily. Some enterprises may continue to go it alone. Some may choose to set up joint companies under centralized management, in which case profits should be shared equitably. Then there are those who may opt for joint trading with foreigners, under which they fulfill contract responsibilities in accordance with a set proportion. Yet others may go in for allocation and transfer and retain a portion of foreign exchange. Some may act as an export agent in return for a reasonable amount of handling fees. Some may sell all their stock and be solely responsible for profits and losses.

Whatever the form it takes, lateral economic cooperation in foreign trade essentially stands or falls on whether or not it helps increase foreign exchange earnings and contributes to economic benefits. All parties concerned must actively embrace and promote this kind of cooperation. When they come across a success story in economic cooperation, they should immediately emulate, propagate and popularize it so that lateral economic cooperation can develop even more healthily.

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CSO: 4006/1172

## FOREIGN TRADE AND INVESTMENT

### DEVELOPMENT OF NEW FORMS OF LABOR EXPORT URGED

Shanghai WEN HUI BAO in Chinese 16 Jun 86 p 1

[Article by Zhu Guangming [2612 0342 2494]: "New Ways Must be Found to Expand Labor Export"]

[Text] With a growth rate far exceeding that of commodity trade, international labor trade is booming. I have been told by a trade expert that not only do developing nations eye international trade in labor services, including project contracting, labor export, information consulting, and software design, with keen interest, but developed nations too are pushing hard for it and consider it a vital source of foreign exchange income.

Shanghai is a relative newcomer to labor export, but has made definite progress since 1983 when the China Shanghai Foreign Economic and Technical Cooperation Corporation was set up to specialize in labor export matters. Nevertheless, the municipality's labor exports remain highly incommensurate with its economic prowess and international stature. At present Shanghai workers sent overseas under the project contracting system account for less than 0.1 percent of the world total. Besides, most of them are concentrated in a handful of countries in the Middle East. Because of plunging oil prices, sharply curtailed oil revenues, and wars, these nations' future demand for labor services is highly uncertain.

How can we expand labor exports and increase foreign exchange earnings from non-commodity trade? One new tack is to rely on private resources and export labor in a variety of imaginative ways at several levels. Returned overseas Chinese and their family members total 380,000 in Shanghai. Among their 340,000 relatives abroad are numerous influential social notables and wealthy businessmen. If we can take full advantage of their extensive social connections and use them as go-betweens and conduits of information, our push into foreign labor markets in such regions as Southeast Asia, US, Europe, and northern Africa will be made that much easier. Private labor export will also help tap the labor potential in Shanghai, a city with 260,000 engineering and technical professionals and senior technicians, along with a huge number of ordinary workers and qualified personnel in a broad range of skills. The existing system of labor export is mainly concerned with project contracting and recruits primarily engineers, technicians and skilled workers. If we manage to open up a market for tertiary industry personnel through private

channels, assorted skilled personnel such as housekeepers, cleaners, sailors, and cooks will become candidates for labor export. Furthermore, the export of "brain power" and the more "intellectual" type of workers is also an important part of private labor export. The Shanghai Overseas Chinese Co, Ltd, is currently organizing the export of technical services in new forms.

What will make private labor export a success is further liberating our ideology and promptly putting together a practical workable management system. By taking a dual approach--private labor export and organized labor export, Shanghai will certainly be able to accelerate its entry into the arena of international labor trade.

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6 November 1986

## FOREIGN TRADE AND INVESTMENT

## INCREASE IN STEADY LONG-TERM COTTON EXPORTS URGED

Beijing ZHONGGUO SHANGYE BAO in Chinese 21 Jun 86 p 1

[Article by Yang Lin [2799 2651]: "Conference Maps Out Cotton Export Policy"]

[Text] During the Seventh 5-Year Plan, the agencies concerned must work together to build China up as a steady long-term cotton exporter. This demand was made at the recent national conference on the development of cotton export in Beijing convened jointly by the Ministries of Foreign Economic Relations and Trade, Agriculture, Animal Husbandry, and Fishery, and Commerce and the State Commodity Inspection Administration. The main purposes of the conference were to draw up a cotton export plan for the Seventh 5-Year Plan, put together a work system for cotton-exporting counties, consider the ways and means of controlling the quality of cotton exports, and commend units and individuals with outstanding performance in cotton export.

Vice Commerce Minister Pan Yao [3382 6674] addressed the conference on behalf of the four ministries and bureau. He said, "Since 1983, China has produced more cotton than it needs domestically and launched an export drive abroad. Over the past 3 years, Chinese cotton exports amounted to 620,000 tons, netting \$800 million in foreign exchange. Formerly a cotton importer, China overnight has become a cotton exporter. This was a major achievement by agriculture and the cotton industry during the Sixth 5-Year Plan and resulted from the concerted efforts of agricultural, trade, supply and marketing, and commodity inspection agencies at all levels.

To conquer the world cotton market during the Seventh 5-Year Plan, the conference demands that we accomplish the following:

- establish a cotton export base. During the Seventh 5-Year Plan, we must gradually establish and perfect policies and measures for setting up a cotton production base, acquire additional processing equipment, devise a cotton export system and strive to fulfill cotton export tasks;
- solve existing problems, including erratic cotton quality, outdated processing technology, lack of inspection equipment, inadequate warehouse facilities in ports, stagnant management, and insufficient transportation capacity. To tackle these problems, we must, first, secure goods sources; second, improve quality; and, third, come to grips with transportation;
- all cotton that meets export requirements must be designated by the cotton and flax company under the supply and marketing cooperative as an export

source and not be diverted to other purposes. Provided it satisfies export criteria, cotton newly procured by a base county each year must be set aside for export; export should have priority over anything else. A quality permit system should be introduced to cotton export processing plants. Processing should be carried out by designated plants;

-- we should share the work and cooperate with one another within a framework of centralized planning and uniform policies, and face the world as one. Agricultural, trade, commerce, and inspection agencies in every locality should name a comrade to specially handle cotton base and export work.

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FOREIGN TRADE AND INVESTMENT

LIAONING VICE GOVERNOR ON EARNING FOREIGN EXCHANGE

SK030115 Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 1 Oct 86

[Text] Wen Shizhen, vice governor of the province, delivered a speech at the provincial conference on the work of successfully utilizing foreign capital and exporting farm and sideline products to earn foreign exchange. In his speech he stated: Efforts should be made to actively improve the investment climate, to vigorously introduce foreign investment, and to give preferential treatment to the enterprises run by foreign businessmen to ensure that their enterprises are run independently.

The provincial conference on the work of successfully utilizing foreign capital and exporting farm and sideline products to earn foreign exchange opened in Shenyang City on 27 September and concluded on 29 September.

The conference held that making further progress in the provincial work of utilizing foreign capital has a vital bearing on accelerating the pace of enforcing the policy of opening to the outside world and making Liaoning, an old industrial base, prosperous. Since the 3d Plenary Session of the 11th CPC Central Committee, more than 700 enterprises throughout the province have utilized foreign capital and introduced advanced foreign technology and equipment. The imported advanced technology and equipment have enabled more than 300 key enterprises to upgrade their production standards to varying degrees and to renew more than 400 production lines. The metallurgical, textile, garment, foodstuffs, and domestic electric appliances industries have incurred a new change in their outlook. The radio industry has reached both foreign and domestic advanced standards in its products and has the capacity to export its products in complete sets and sign contracts of manufacture. After beginning production, the enterprises established by using foreign capital have enhanced the province's capability to earn foreign exchange. The textile industrial enterprises in Yingkou City have increased their exports from 14 to more than 40 products by successfully utilizing foreign capital, and their products are sold in markets of more than 50 countries and regions. Since 1986 they have earned 5.5 times more foreign exchange than the foreign capital used by them.

The conference held that our province has scored marked achievements in earning foreign exchange by exporting farm and sideline products. Expanding the export of farm and sideline products has brought about new vigor to the commodity economy in rural areas. Therefore, it is imperative to strengthen leadership over



the work of exporting farm and sideline products in order to earn foreign exchange.

According to another report, in order to strengthen the province's leadership over the work of successfully utilizing foreign capital, the provincial People's Government has established a leading group in charge of utilizing foreign capital with Vice Governor Zhu Jiazhen as its head. The leading group is responsible for exercising unified leadership over the work of utilizing foreign capital in the province and making arrangements for establishing enterprises with foreign investments. The office under the leading group has been set up in the provincial foreign trade and economic commission and has now begun its daily work.

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CSO: 4006/54

FOREIGN TRADE AND INVESTMENT

FUJIAN'S QUANZHOU TO DEVELOP EXPORT PRODUCTION

HK060405 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0603 GMT 3 Oct 86

[Text] Quanzhou, 3 Oct (ZHONGGUO XINWEN SHE)--Quanzhou City, an Overseas Chinese native place in Fujian Province, has decided to devote major efforts to developing production of export commodities over the next 5 years. As a result, the city's output value of export goods will account for more than 10 percent of the gross output value of industry and agriculture.

The projects which it is planned to build or expand for production of export goods include:

--A sports shoe export base with an annual output of 10 million pairs, to be built by importing 26 production lines;

--An export base for stone products such as slabstones, carved stones, and building stone materials, to be developed by relying mainly on Huian while making Jinjiang and Nan'an subsidiaries;

--A tea export base in Anxi and Yongchun, by transforming 80,000 mu of low-yielding tea plantation;

--A fine chinaware export base in Dehua with an annual output of 6 million pieces of tableware, to be built by using foreign investment funds and importing modern equipment;

--The Quanzhou Gourmet power (MSG) factory and the Quanzhou Canned Food Factory, to be expanded in an effort to raise their annual output to 3,500 tons and 7,500 tons respectively.

Meanwhile, Quanzhou will also vigorously promote the export of handiwork shoes, textiles, synthetic handbags, and perishable commodities.

The counties of Jinjiang, Nan'an, Yongchun, Anxi, and Huian will establish their trading companies to directly export perishable commodities.

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FOREIGN TRADE AND INVESTMENT

HEBEI ECONOMIC, TECHNOLOGICAL COOPERATION MEETING CONCLUDES

SK090216 Shijiazhuang HEBEI RIBAO in Chinese 22 Sep 86 p 1

[Excerpts] The second provincial economic and technological cooperation invitation meeting concluded satisfactorily on 20 September. At the meeting, 198 contracts and agreements were signed, involving a total investment of 208 million yuan, of which 102 million yuan is funds to be imported. Both figures exceeded the planned ones.

What is noticeable, the contracts and agreements signed by our province's metallurgical industrial, light industrial, building material and textile industrial trades amounted to two-thirds of the total, and the funds they are going to bring in amounted to three-fourths of the total. They developed the advantage of our province, and became the focus of the economic and technological cooperation within and outside the province. Among the 198 contracts and agreements signed, 150 were on joint ventures, compensation trade, and cooperative production, representing a new development in the lateral economic cooperation between enterprises in and outside the province.

At the invitation meeting, 888 letters of intention were also signed, involving a total investment of 550 million yuan, of which 156 million yuan is to be imported. Leading comrades of the provincial government urged relevant departments to step up early stage preparations, continue to hold trade talks, and strive to sign contracts at an early date.

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## FOREIGN TRADE AND INVESTMENT

### FOREIGN FUNDS, TECHNOLOGY INVIGORATE XINJIANG ECONOMY

HK100517 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 8 Oct 86

[Excerpt] By importing foreign funds and advanced technology in a variety of ways, the region has added new vitality to its economic construction. At present, the region uses foreign funds in 34 projects, and has signed agreements involving more than US\$59 million in foreign funds, of which over US\$33 million has been completed.

Through various forms, the region imported 58 items of advanced technology and equipment, increasing its output value by 310 million yuan. This also brought 65.28 million yuan of profits and tax delivery to the region. Also, the region's number of new products was increased by 22, thereby filling the gaps in the region's production.

Since 1980, the region has been seriously implementing the policies of opening up and invigoration. In its economic construction work, it paid attention to importing foreign funds. When opening up to the outside, it put stress on developing its advantages of having abundant resources and vast territory. By comprehensively adopting the forms of joint venture, cooperation, compensation trade and leasing the region imported foreign funds and technology in a flexible and effective way.

In addition to Hong Kong and Macao, which rank top in the region's amount of imported foreign funds, the region now imports foreign capital and maintains trading relations with Japan, the United States, West European countries, as well as the Soviet Union and countries in the Middle Asia and the Middle East. In the course of importing funds, advanced technology and equipment, the region attaches great importance to the investment trend of foreign funds and gives priority to the development of production projects which require a short construction period but bring quick results. The foreign funds are mainly used by such industries as textiles, light industry, processing flowers and fruits, and tourism. Production projects account for 71 percent of the total number of projects in the region. Some 78.5 percent of them are earning foreign exchange for the region.

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FOREIGN TRADE AND INVESTMENT

BRIEFS

TIANJIN JOINT VENTURES--Since 1979, Tianjin Municipality has signed 170 contracts on running joint ventures with the total investment of \$576 million, of which \$279 million has been foreign investment. Thus far, a total of 71 joint ventures have started or been put into production, with a total investment volume of \$120 million and registered funds amounting to \$77 million, of which 42 percent has been foreign investment. From January to August this year, the total sales volume of joint ventures amounted to 189 million yuan. [Summary] [Tianjin Tianjin City Service in Mandarin 2330 GMT 23 Sep 86 SK] /7358

HUNAN CHEMICAL INDUSTRY EXPORTS--By the end of September, chemical industry enterprises in the province had overfulfilled this year's plan for output value of exports and earned \$24.2 million in foreign exchange, an increase of 53 percent over the whole of 1985. [Summary] [Changsha Hunan Provincial Service in Mandarin 0100 GMT 8 Oct 86 HK] /7358

CSO: 4006/17

SPECIAL ECONOMIC ZONES

SHANTOU CITY FULFILLS 1986 EXPORT QUOTAS EARLY

HK011431 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 1122 GMT 30 Sep 86

[Text] Hong Kong, 30 Sep (ZHONGGUO TONGXUN SHE)--A report from Shantou: By 24 September the export volume of Shantou City's foreign trade amounted to \$189 million or more, an increase of 86.8 percent over the same period last year, thus fulfilling the export task for the entire year.

Drawn-work, fishing nets, clothes, handicraft articles, porcelain, and tea are the traditional Chaozhou and Shantou export goods. This year's export situation for these goods is very good, drawn-work in particular. Since the end of last year, in the light of international market conditions, the production units concerned have concentrated their efforts on creating more new designs and varieties and so their products have become more elegant in pattern, and their general appearance more natural, graceful and poised. The export of drawn-work has earned \$41 million in foreign exchange since the beginning of this year. Bamboo, paper, and iron boxes have been used to pack Chaozhou's famous Wulong tea in favor of the previous large bags to meet the needs of the international market. A total of 1,070 tons of Wulong tea has been exported this year, 370 percent more than the corresponding period last year.

Since the beginning of this year, Shantou City has also vigorously developed new varieties of export goods, including colored plastic pearls, evening dresses, flagstones and other materials. Colored plastic pearls are many and varied in design and variety, and bright and gorgeous in color. At this year's spring export commodities fair, the foreign trade departments had formerly planned on only supplying colored plastic pearls worth \$60,000. However, the moment they were put on sale, they were heavily sought after and their sales volume amounted to \$750,000.

Shantou City is also active in opening up new overseas markets to increase exports. According to statistics, by the end of August, overseas trade volume had increased by 54 percent from the same period last year.

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SPECIAL ECONOMIC ZONES

BRIEFS

SHANTOU SUPPORTS FOREIGN ENTERPRISES--The Shantou special economic zone has vigorously supported operations of foreign enterprises. As a result, most of the 29 foreign enterprises in the zone have achieved success in their business operations. The total output value of foreign enterprises in the zone from January to August amounted to some 45 million yuan, an increase of more than 100 percent over the same period last year. [Summary] [Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 7 Oct 86 HK] /7358

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END